

REPUBLIC OF ALBANIA

**OPPORTUNITIES AND
ISSUES FOR MUNICIPAL
REFORM**

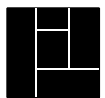
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ABBREVIATIONS USED IN THIS REPORT

AAM	Albanian Association of Mayors
ABA	American Bar Association
CB	Conditional Budget
CEELI	Central and Eastern Europe Law Initiative
CIT	Corporate Income Tax
FY	Fiscal year
GoA	Government of Albania
IB	Independent Budget
IMF	International Monetary Fund
LG	Local Governments
MoF	Ministry of Finance
MPWT	Ministry for Public Works and Transport
NGO	Non-Governmental Organization
OSCE	Organization for Security and Cooperation in Europe
PIT	Personal Income Tax
USAID	United States Agency for International Development

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Albania began the process of decentralization in the early 1990's with the advent of democracy. Local governments were created at that time and a number of laws were passed which govern their competencies and authorities. Much of that legal framework has yet to be implemented, and the reality is that local governments in Albania have very limited administrative and fiscal autonomy. A summary of findings and recommendations resulting from this analysis are presented below.

GENERAL CONCLUSION

Legislation governing local finances in Albania¹ defines two elements of the local government budget, the "conditional" and the "independent" budgets.² The conditional budget is funded by transfers from the central government. These funds are used for very specific purposes, as determined and allocated by relevant line Ministries and by the Ministry of Finance.³ Since the conditional budget accounts for ninety-five percent (95%) of local expenditures in the aggregate, local governments have little financial autonomy and lack the authority to manage their funds in accordance with the best interests of the locality. In effect, most functions and responsibilities of local governments are delegated through annual state budget appropriations and do not derive from existing organic local government legislation.

LOCAL GOVERNMENT FUNCTIONS AND RESPONSIBILITIES

Major Finding

The precise role and responsibilities of local governments are not clearly defined and thus open to interpretation. There is no information or instructions as to how those functions are to be carried out.

¹ Law No. 7616 of 30-Sep-1992, "For Preparation and Implementation of the State Budget of the Republic of Albania" and Law No. 7776, "For Local Government Budgets."

² Article 1, Law No. 7776.

³ According to Article 15 of Law No. 7776, "... The ones who give orders for the conditional local budget funds are defined by Law No. 7616 of 30-Sept.-1992 'For the Preparation and Implementation of the State Budget of the Republic of Albania'."

ROLE OF NATIONAL GOVERNMENT

Major Finding

Field offices of Ministry of Finance exercise considerable oversight of local government finances and are located at the district level throughout the country.

BUDGET PROCESS

Major Finding

The Albanian local government budgeting system is unique in its strong degree of expenditure-based formatting, which is a holdover from the old system. All revenue estimates are based on what projected expenses will be throughout the local government. The line ministries determine how many teachers, garbage trucks, and street cleaners are needed, based usually on the previous year's level of service. Then revenues are projected to cover these costs. This type of system is in contrast to most market-oriented democracies in which expenditures are formulated first on what the total revenue base is in any locality, not the reverse.

Major Finding

Within the framework of local government finances, there is a gap between the main local government finance text and current practices. In fact the greater part of Law No. 7776 "For Local Government Budgets," has not been implemented in a meaningful way and exists only on paper. Article 41 of Law No. 7616 includes a "transitional provision" which specifies that until the establishment of local governments and their new authorities, "... the relationship of the national budget with the local budget will continue in the forms used today, which means covering nearly all the expenditures of local government, and incorporating all revenue, into the state budget process." This has had a major impact on how local governments function and how they manage their finances.

Major Finding

The legal framework in Albania provides that surplus budget funds derived from locally generated revenues may be carried over to the next budget year.⁴ In practice, local governments have never been able to carry over their excess funds to the next budget year. Each year the Council of Ministers has passed a decision or decree which requires all or some part local budget surpluses, i.e., those funds not expended by the end of the budget year, sometimes even before the end of the budget year, to be transferred to the

⁴ Article 22, Law No. 7776.

state treasury account, regardless of whether they derive from local revenues or from transfers.

REVENUES

Major Finding

Local government authorities, including communes, municipalities, and districts, have the authority to levy taxes and fees to help carry out their competencies.⁵ Although own local taxes and fees offer the greatest potential for full local autonomy, many elements of the existing framework currently limit this potential. The main limitations are the following:

- ! No automatic adjustment of fixed tax bases for inflation, leading to a real loss of value of potential tax income.
- ! No possibility for local governments to set the rates of local tax and fee, to account for local fiscal conditions and capacities.
- ! Difficulty of oversight for taxes and fees collected by central government institutions rather than by the local governments themselves.
- ! Inability to freely determine the spending allocation of revenues from own local taxes and fees, and as a result, having these revenues being trapped in the treasury system, when end of year surpluses are captured by the Government.

Major Finding

In Albania, the property tax is the only example of a shared national tax.⁶ The property tax is regulated by a separate law, “For Property Tax in the Republic of Albania” (No. 7805 of 16-Mar-1994). Assessment and collection of the property tax had initially been the responsibility of the state tax collection office. Local governments have no recourse if the local tax office fails to collect the tax, or to share it in the proportion established by law, as has frequently happened.

⁵ Article 6, Law No. 7776 of 22-Dec-1993, “For Local Government Budgets” and Articles 3 and 4, Law No. 7777 of 22-Dec-1993, “For the Fee System in the Republic of Albania.”

⁶ It should be noted that the property tax is most often defined as a purely local tax in most Central and Eastern European countries, as well as in Western Europe and the U.S.

Major Finding

Excluding property taxes, independent budget revenues are quite concentrated in Tirana, (and very likely, Durrës), where in 1996, 39 percent of the total amount of IB revenues were collected.

Major Finding

Transfers to Albanian local governments are referred to as the “conditional budget” in the relevant laws and in budget reporting and usage. These direct central government transfers to local governments represent at the same time revenues and expenditures for delegated tasks. The main laws on the state budget and local budget do not provide any essential information on the direct transfers from the central budget. For example, these laws do not define the basis on which the transfers are calculated; they do not identify who calculates the transfers, nor who distributes the funds, nor the services for which transfers are given. Discussions with local government officials seem to indicate that the individual line ministries wield great powers of discretion over these transfers, in the manner in which they are determined and distributed.

EXPENDITURES**Major Finding**

Ninety-five percent of local government expenditure is financed by transfers from the state budget and is classified as the “conditional budget.” The use of these resources is defined right down to Chapter and Article. The process described by local and national officials for the distribution, control and use of these funds indicates clearly that this part of local government financing continues to be completely incorporated into the State Budget process, as per Law No. 7616, and implementing regulations of MoF and relevant line Ministries.

Major Finding

The local administration of the state's social assistance program which delivers financial assistance to unemployed and other beneficiaries, shows that there is a local capacity to administer and target programs and services. State social assistance transfers are less restricted than other transfers. The social assistance funds are transferred as a block grant to local governments, who are given substantial leeway to determine how the funds will be used. The assistance is means-tested and can be designed to fit the local context based on local economic and social conditions.



Major Finding

Expenditures of the independent budget are limited to articles 03 (operating expenditures) and 05 (investments). Even within those constraints, local governments are not entirely free to do what they like with funds collected under the independent budget. The system discourages efforts by local governments to improve local revenue collection.

FINANCIAL ANALYSIS

Major Finding

Analyzing the financial conditions of Albanian local governments as well as for individual cities is somewhat difficult, as total budget revenues and expenditures are not aggregated. Given these limitations, it is almost impossible to perform a standard budget analysis and reasonably calculate any ratios of “savings capacity” or end of year surplus.

INVESTMENTS

Major Finding

The main legislative texts which set out local government responsibilities do not elaborate in detail on the extent of local responsibilities for investment. There also does not appear to be a clear definition of what constitutes investment nor of the distinction between new investment, rehabilitation and renovation.

Major Finding

The level of investment by local governments, at 13 percent, is below comparable rates in most European countries and especially those of the former socialist countries of central and eastern Europe.

Major Finding

Most funding for local government investments is distributed through the conditional budget. The largest share of investment funding (in absolute numbers and in percent) is allocated to the districts. Investment resources allocated to communes are insignificant. Thus, it appears that most of investments targeted to communes may be under the responsibility of the districts.

Major Finding

Whatever the source of funding, local governments have relatively little control over investments financed through their budget.

Major Finding

Although there is nominal authority for local governments to contract debt to finance investment (see Article 6, of Law No. 7776), in practice, local governments do not appear to have taken on any loans. Because of the structure and functioning of local government responsibilities and finances, no local government would at present be considered creditworthy.

MUNICIPAL PROPERTY**Major Finding**

The consensus opinion is that all public lands and buildings legally belong to the state, meaning the central government of Albania. Local governments are authorized to utilize certain properties to carry out their responsibilities, such as the city hall or local parks, but they only “administer” them. These means they are responsible for physical maintenance, as approved in their independent and conditional budgets. A major constraint that this situation places on local governments is that they are unable to exploit potential assets or even improve existing ones.

Major Finding

Although draft public property laws currently under consideration still fail to answer a number of questions, and do little to clarify functional responsibilities or change the financial constraints under which local governments operate, they would improve the current situation substantially if implemented.

MUNICIPAL ENTERPRISES AND PRIVATIZATION**Major Finding**

Mayors have the authority by law⁷ to name and dismiss the managing council of local state enterprises that provide services locally and that have a major impact on the quality of life, such as water and wastewater system. Despite this authority, real control over these enterprises remains at the central government level. The ministries tightly

⁷ Article 14, Law No. 7572.



control the budget, investment, personnel, and payroll decisions, thus leaving the local government appointed management unable to restructure staff, buy or sell assets, nor to generally make important management or investment decisions. The state also maintains ownership over all physical assets of the enterprises.

Major Finding

Many of these enterprises are now subject to privatization through the implementation of management contracts as part of an effort to improve the provision and efficiency of services. The ministries maintain control over the privatization of local services provided by the enterprises. Nonetheless, privatization of solid waste services appears to be taking hold at the local level. USAID has played an important role in promoting the privatization of solid waste collection and supporting the role of local governments in this process.

Major Finding

The current government has developed an approach to privatization called “Privatization Strategy for Primary Importance Sectors,” which was approved in December, 1997. The document presents a strategy for the privatization of five strategic sectors of the economy, including water resources. Of all the strategic economic sectors still controlled by the state, the water sector is perhaps the best candidate for decentralization to the local level. The key issue for this analysis is how privatization of the water sector will affect local governments. This is an open issue now being debated by the government.

RECOMMENDATIONS

As a result of this detailed assessment of local government in Albania, a number of recommendations are proposed as the GoA considers a broad agenda for decentralization and strengthening of local governments. These recommendations are presented in more detail in “Recommendations” section of this report, and are summarized here.

Both the GoA and local governments in Albania have declared their intention to use the European Charter of Local Self-Government as a guiding document for the reform process. The basic principles of the Charter which need to be addressed in the current context are included below as a starting point for reform.

- ! Scope of local self-government — basic powers and responsibilities.** The important component of this principle is that local authorities have full discretion to exercise authority for any matter not specifically excluded from their competence in law, and that they be able to adapt powers to local conditions. Furthermore, powers granted to local authorities should not be undermined by other state or local authorities except as provided by law.

- ! **Appropriate administrative structures and resources for the tasks of local authorities.** Local governments should be able to determine their own administrative structures in order to adapt them to local needs and ensure effective management practices.
- ! **Administrative supervision of local authorities activities.** This principle is aimed at ensuring that any administrative supervision exercised over local authorities is concerned only with ensuring compliance with the law and with constitutional principles. Also, supervision should be exercised such that intervention is proportionate to the importance of interests it is protecting.
- ! **Financial resources of local authorities.** The basic principle is that local authorities be entitled to adequate own resources, in part through local taxes and fees determined at the local level, which they can utilize freely within the framework of their powers. Also, financial resources should be commensurate with responsibilities local authorities have been assigned. Another important part of this principle is that local governments be consulted regarding the way in which redistributed resources are allocated to them, and that those resources not be earmarked for specific projects, to the extent possible.

Specific Recommendations

A series of specific recommendations are presented, organized around the basic principles of European Charter of Local Self-Government. Given the large number of reforms described, it is essential that the GoA and all other parties involved reach agreement on the phasing of the reforms which are both financially feasible and politically viable within the current economic and political context in Albania.

Not all of the recommended reforms are equally workable or desirable at this point in time. The current fiscal crisis confronted by the public sector will limit some options. In order to choose which reforms are most important, it is useful to compare them to the most important challenges that local governments in Albania face today; those challenges are documented in this report.

Scope of Local Self-Government

- ! Clarify local government responsibility to deliver services.
- ! Formally involve local governments in the inter-ministerial Task Force on local government reform or other appropriate coordination mechanisms.
- ! Clarify the legal status and powers of local governments. Although local governments possess legal powers in theory, their legal rights are not defined in any detailed way.



- ! Delegate authority to local governments to manage local staff for tasks for which they are responsible by law.

Financial Resources of Local Authorities

- ! Allow local governments to carry over independent budget surpluses to the next fiscal year.
- ! Prohibit the freezing of independent (or local) budget funds.
- ! Allow use of own local resources as needed.
- ! Remove spending caps for specific line items, and allow local governments to determine where and how to best allocate funds.
- ! Eliminate the dual fiscal year system.
- ! Clarify the framework which allows local governments to operate in the event there is no State budget by December 31.
- ! Establish a more transparent, stable and objective manner of calculating transfers to local governments.
- ! Give more responsibility to local governments for revenue-raising and setting local tax rates, within perhaps a pre-determined minimum and maximum.
- ! Grant local government authority to determine where and how certain local taxes and fees are collected.

Appropriate Administrative Structures and Resources

- ! Clearly define property ownership rights between the national and local levels of government.
- ! Grant necessary powers to manage urban land effectively.

- ! Delegate full management authority to local governments for the provision of services for which they are legally responsible.
- ! Grant clear authority to enter into management contracts so services can be competitively bid and efficiently provided.

REPUBLIC OF ALBANIA

OPPORTUNITIES AND ISSUES FOR MUNICIPAL REFORM

INTRODUCTION

Purpose and Organization of Study

The objective of this report is to present an analysis of the current situation and problems of the municipal organizational and financial framework, and the extent to which decentralization of essential local functions to local authorities is aided or impeded by this framework. Although the first step in decentralization was the direct election of local officials, the next step must be to provide real authority to local elected officials.

In line with the Government program, specific proposals made by representatives of local governments, and the requirements of the European Charter for Local Self-Government, a set of specific recommendations are presented, to address the impediments to local government autonomy which have been identified.

The rest of this introduction will examine the current political context for local government reform and outline the reform agenda. Successive sections of this report will analyze the structure of Albanian local governments, the framework for local government finances followed by details on specific issues of revenues and expenditures. Issues of investment, local government asset and property management and municipal enterprise privatization are discussed in the following sections. Finally, the report concludes with proposed recommendations for reform of the local government system and for technical assistance to assist in the implementation of these reforms.

Current Situation in Albania

With the collapse of the Communist regime in 1990, Albania began its first ever experiment with democracy. Since then, the Albanian government has pushed through an impressive number of reforms, resulting in the near complete privatization of the economy. Many state enterprises were sold or disbanded and major industries, such as the construction and service industries (the two largest industries in Albania now) are completely in private hands. Agricultural land was privatized and distributed to farmers as small plots of land. Over 97 percent of state owned housing was sold rapidly by the central government at nominal prices to sitting tenants. The macroeconomic situation has been largely stable until the "crisis" in 1997, with decreasing trends in inflation, impressive growth rates, and a stable currency, despite a large budget deficit in recent years reaching 10 percent. However, the economy has benefitted substantially from large amounts of foreign aid and remittances from Albanians who emigrated to Greece and Italy since the early 1990's. Total foreign remittances are estimated to reach between \$350 and \$450 million per year.

Albania's economic and social progress was threatened during 1997 with the onset of a period of political and economic instability from which the country is now emerging. With fresh elections held in June, 1997, the new Socialist-led coalition government has begun to stabilize the country, and has succeeded in re-establishing control over most areas. For the most part, local governments have also resumed their normal governing activities, although some mayoral posts are currently unfilled.

Priorities and Agenda for Reform

Local Government Priorities

Local governments, through the Albanian Association of Mayors (AAM), are clearly in favor of more independence and fiscal autonomy. The AAM has developed a policy statement which lays out a proposed reform program complete with short-term, medium-term, and long-term steps to achieve these goals. From a policy standpoint, the AAM has demanded that the government sign and abide by the European Charter of Local Self-Government and incorporate its major principles into the constitutional process, described in more detail below.

Government Program

The current Albanian government has professed the need for further decentralization of powers and resources to local governments. Main priorities of the Socialist coalition government in this field, as published in their official program, include:

- Rebuilding and restructuring the normal function of local power organs, involving elected local authorities in the process
- Better definition of local government competencies, tasks, and ownership of property
- Deepening of decentralization through improved intergovernmental relations

The Government has also pledged to give the necessary financial and material means to local governments to fulfill their responsibilities, and to proceed with reforms on the basis of the European Charter of Local Self-Government.⁸

The Government has created an Inter-Ministerial Task Force for Local Government, chaired by the Deputy Prime Minister. The task force has been given a detailed program of decisions and laws which are to be modified or established over the next year.⁹

⁸ "Albanian Government Program", presented to Parliament on July 28, 1997.

⁹ Recent information suggests that the task force may no longer be active; in any case, it is the Ministry of Finance and the State Secretariat of Local Government which are primarily responsible for drafting critical laws, and will be the ones to coordinate with local government representatives.



Donor Priorities

In response to the "crisis" the key members of the international donor community such as the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, and the European Commission have developed a broad consensus for a recovery program which will address three strategic areas:

- Restoring and developing governance and supporting civil society
- Designing and implementing sound economic and social policies
- Reviving economic activity

One key element of the donors' program for recovery includes the further decentralization of responsibilities to local governments. It is broadly recognized by the international community that local government in Albania is operating in a legislative and regulatory vacuum, with many of their responsibilities and tasks undefined or out of their control. In particular, in the October 1997 "Sector Investment and Technical Assistance Programs for Recovery" document published by the donors named above, decentralization of key infrastructure services such as water and wastewater are specifically encouraged.

Coordination of Constitutional Reform and Local Government Reforms

The provisions which guide Albanian law are a set of interim constitutional provisions, adopted in 1991, and modified many times since. These provisions may be amended by a super-majority of two-thirds of Parliament. A first Constitution was presented for referendum to Albanians in November 1994; this text was rejected and the interim constitutional provisions remain in force. The goal of the present Government is to write a new Constitution for Albania, to be presented in a referendum in the summer or fall of 1998.

The Organization for Security and Cooperation in Europe (OSCE), with the support of the German GTZ and the ABA/CEELI program, has opened an Administrative Center for the Coordination of Assistance and Public Participation (ACCAPP) to organize national and international participation in the drafting of the Albanian Constitution.

Through this initiative a series of forums with NGO's and focused discussion groups is being organized around five basic issue areas for the Constitution: Executive Power, Legislative Power, Judicial Power, Human Rights and Local Government. The local government reform process will have to be coordinated with the direction of Constitutional reform. The current Government has identified its main priorities for the reform and decentralization of local government. In the short term, it may be limited to proposing changes within the existing framework to alleviate the most obvious impediments to local government autonomy. However, in the medium term, profound systematic reform of the local government sector may be held up while major constitutional principles are being worked out.

THE STRUCTURE OF LOCAL GOVERNMENT

Organization of the Local Government Sector

The interim constitutional provisions passed in 1991 established and set out the most basic rights of local authorities in Albania. The provisions instituted two different levels of local government with full legal powers, possibility of property and asset ownership, and the authority to issue normative acts effective within their territorial boundaries. The two levels of local power are communes (310), and municipalities (65) as the smallest governmental structures, and districts (36). The administrative and organizational structure for local governments was established in 1992, with the promulgation of Law 7572 "On the Organization and Functioning of Local Government" and Law 7573 "The Elections of the Local Government." Each type of local government unit is described below.

Communes and Municipalities

Communes and municipalities are the first level of local government in Albania. The difference between the two is that communes are smaller in population and are usually made up of a number of rural villages grouped together geographically. Otherwise, communes and municipalities have the same responsibilities as defined by law. The two main elements of the governing structure include the mayor, sometimes referred to as the Head of the Commune or Municipality, and the council. Council members are elected based on a proportional voting system on party lists. The mayor is elected in a two-round process; if no candidate wins the outright majority in the first round, the two candidates with the highest number of votes proceed to a second round which takes place one week later. The local mandate is for four year terms, unless elections are called for another reason. Local elections are generally to be held three months following general elections, the last ones being held in October, 1996 following the general elections in June of that year. Although special general elections were held in June, 1997 as part of the solution to the political and economic crisis, local elections are not anticipated at this time, except as needed to fill the posts of mayors who are no longer present in seven municipalities and eight communes.

Districts

The district is a broader level of government than the municipality/commune, and includes those municipalities and communes that are located within its borders. District governments are composed of a council, presidency of 5-7 members, and chairman. The district council is elected based on a proportional system similar to municipal and communal elections, and the council elects the presidency and chairman. The basic function of the district is to coordinate economic activities which involve more than one municipality or commune within its borders. It also governs any territory not incorporated



into a municipality or commune, and approves those urban planning changes within its borders that do not require central government approval. The district establishes its own budget and has the authority to set local taxes and levies, as well as special temporary taxes in accordance with law, although it is not clear that any districts have exercised these rights.

Legislative Framework for Functioning of Local Government

The legislative framework referred to above spells out in very general terms the tasks and responsibilities of communes and municipalities (referred to hereafter as "local governments"). The most important of these include:¹⁰

- Prepares and approves local draft budgets and settlement of financial accounts
- Imposes taxes and other obligations as defined by law
- Nominates and dismisses the managing councils of state enterprises located in its jurisdiction
- Ensures the functioning of the local transportation system, road system, and postal services
- Prepares and ensures implementation of the local urban development plan
- Supervises local public services
- Prepares structure and prescribes number of workers and their wages in communes and municipalities
- Ensures the necessary funds for the well functioning of local educational, health, cultural, and youth institutions under its management

The implementation of these responsibilities are described in more detail below. It is apparent from reading the legislation, however, that the precise role and responsibilities of local governments are not clearly defined and thus open to interpretation. This lack of precision contrasts with the local government administration law of other Central European transition countries, which tend to define the specific services and sectors under local government purview in substantial detail. Districts work under similar constraints, and although their list of responsibilities differs and is perhaps even less well defined than the list for communes and municipalities, the following analysis generally applies to district governments as well.

Local budgets are governed by two laws, Law No 7616 "For Preparation and Implementation of the State Budget of the Republic of Albania" and Law No. 7666 "For Local Government Budgets". The law "For Local Government Budgets" which first became effective for the 1994 fiscal year (FY), specifically defines two basic elements to the local

¹⁰ Articles 14 and 34, Law No. 7572 of 10-Jun-1992, "On the Organization and Functioning of Local Government".

government budget, the independent budget and the conditional budget.¹¹ The distinction is mainly one of the source of funds, rather than the ability of local governments to determine autonomously the use of these funds. "Conditional revenues" are transfers from the central government, which are to be used for very specific purposes, as determined and allocated by relevant line Ministries and by the Ministry of Finance.

"Independent revenues" are those which are own local source income and in the law are classified in three broad groups:

- Revenues from own sources, which include local taxes, revenues from fees for services and revenues derived from local economic activities
- Revenues from national taxes and fees which are transferred directly to the local budget
- Other revenues, such as donations, grants and credits to finance investment.¹²

Within this framework of local government finances, there is a gap between the main local government finance text and current practices. In fact the greater part of Law No. 7776 "For Local Government Budgets," has not been implemented in a meaningful way and exists only on paper. This has had a major impact on how local governments function and how they manage their finances. These effects will be discussed below with respect to three main categories: the budget preparation process, the revenues of local governments and expenditure issues.

Local government authorities, including communes, municipalities, and districts, have the authority to levy taxes and fees to help carry out their competencies.¹³ Many taxes and fees are administered locally, but for a number of reasons discussed below, revenues are minimal and their use is constrained by the existing financial framework. Many local governments have taken advantage of the provision of the Law No. 7777 which allows them to impose minor fees for public services.

In addition to the functions described above, local governments carry out other tasks delegated from the central government. The most important of them is the local administration of the state's social assistance program which delivers financial assistance to unemployed and other beneficiaries. State social assistance transfers are less restricted than state transfers, and are a good example of local capacity to administer and target programs and services. The social assistance funds are transferred as a block grant to local governments, who are given substantial leeway to determine how the funds will be

¹¹ Article 1, Law No. 7776.

¹² Article 6, Law No. 7776.

¹³ Article 6, Law No. 7776 and Articles 3 and 4, Law No. 7777 of 22-Dec-1993, "For the Fee System in the Republic of Albania."

used. The assistance is means-tested and can be designed to fit the local context based on local economic and social conditions.

Local Representatives of the National Government

The central government is represented at the local level through a prefectural system and by local offices of the Ministry of Finance at the district level, which controls the access to state operating and investment funds. There are twelve prefects in Albania, which have the responsibility to supervise the legal activity of the local governments in their jurisdiction. The prefect is nominated and discharged directly by the Council of Ministers.

The most important responsibilities of the prefect as they relate to local government include monitoring and approving the legality of all local government acts and regulations passed in the prefecture. Determination of a local government act or regulation as illegal results in the immediate suspension of the act until a court can decide on the matter. This is carried out through the appointment by the prefect of a legal "secretary." Each secretary has a staff which monitors local governments throughout the prefect.

Other prefectural responsibilities relating to local governments include the following:

- Supervising the activity of the organs of public order, i.e., control of the police function
- Supervising state budget expenditures
- Deciding on conflicts of competencies between the state administration entities at the local level
- Implementing civil defense measures

Field offices of Ministry of Finance exercise considerable oversight of local government finances and are located at the district level throughout the country. The Ministry has three departments operating at the local level. The Budget Office is the local governments' counterpart when preparing their budgets for central government approval. All local government finances, including local tax and fee revenues, are held in an account administered by the local Treasury Office. The Ministry of Finance also has a Tax Department at the local level, responsible for collecting national and some local taxes. Certain other ministries with significant transfers may also have a deconcentrated presence in the regions, such as the Ministry of Public Works and Transportation and the Ministry of Education, although they are more commonly found at the prefectural level.

FRAMEWORK FOR LOCAL GOVERNMENT FINANCES

Budget Preparation Process

The local budget is prepared based on guidelines provided by the Ministry of Finance. Apparently over the last four years, four different budget presentation formats have been used, although local budgets, both the independent and conditional components, have been consistently divided into four main spending categories ("articles" as they are known in Albania):

- (01) "salary," which includes net payments for employee salaries
- (02) "social insurance," which includes payments of social and health insurance for local government employees
- (03) "operating expenses," which includes funds planned for materials, services, and allowances
- (05) "investments," which include projected expenses for capital investments¹⁴

Initial budget estimates are not restricted by law, and in theory the local government can freely request what it thinks its needs are. In reality, the Council of Ministers and the Ministry of Finance provide instructions and guidelines for estimating operating costs and local governments must work within those figures when preparing their budget.

The local budget preparation process begins in June of the year preceding the budget year. The mayor's staff prepares the budget for operating expenses based on Ministry of Finance guidelines. These targets are usually based upon the previous year's approved budget plus an increase for inflation or other costs. The budget is presented by the mayor to the local council for revision and final approval. Approval of the budget by the local council requires a super-majority of two-thirds.¹⁵ By August this approved budget is submitted to the local budget office of the MoF, the local Prefect office, the Budget Department at the Ministry of Finance, the Local Government Secretariat at the Ministry of Interior, and to other appropriate local government officials. The local budget office of the MoF may present initial comments, and the local government has the option to present a revision within 30 days. The final draft local budget must be presented to the Ministry of Finance by September 15, after which it is incorporated into the state budget process.¹⁶

At the same time, line Ministries are preparing their budget estimates, including those funds which are part of the conditional budget for each local government. Although local governments have made budget estimates based on their local situation, the line ministries can override these budget estimates, without consulting the local governments. Their primary concerns are costs for salaries and social insurance, and the number of employees per sector (i.e., for solid waste, number of garbage collectors, number of street sweepers, number of park maintenance workers...), dictated and based on a set of

¹⁴ There is also an Article (06), which is a subsidy expenditure, appearing in MPWT-related funds.

¹⁵ Article 21, Law No. 7572.

¹⁶ Article 13, Law No. 7616.



statistical norms which have been handed down from year to year, with limited consideration of actual needs at the local level.

The Ministry of Finance then sends the local budgets as part of the national budget to the Council of Ministers for approval by October 15, and finally to the Parliament by November 20, which approves only the central government funding part of the local budgets.

After the state budget is approved, the Ministry of Finance coordinates with all the relevant line ministries which must detail how the state funds will be allocated at the local level for operating expenses. For instance, the Ministry of Public Works and Transport must reconcile its own budget estimates with the final approved allocation and list the final numbers of employees, salary levels, and social insurance costs for all public enterprises such as solid waste, water and wastewater, etc. Once this occurs, the Ministry of Finance prepares estimates as to what portion of the local operating budget in each local government is to be financed from central government transfers versus local revenues ("conditional" versus the "independent budget"). The budget is revised with spending caps set on central funding levels for each of the main budget categories. It is then up to the local government to determine how to finance the gap between central government transfers and estimated operating expenses (03) and investments (05) from local revenues.

The investment part of the budget follows a similar allocation process. Investment expenditures for local governments are approved at the ministerial level by the finance directors in each ministry. Forms are sent to local governments with an "orientation figure" describing what ministries are planning to spend for different investment categories in each city. The different local government departments complete the forms and they are consolidated and sent back to the relevant ministries. Investment subsidies are transferred on an ad hoc basis after the relevant procurement documentation has been approved by the appropriate ministry.

After the state budget is approved by Parliament, funds are to be made available to local governments through the local Treasury offices of the MoF by December 15. Over the fiscal year, spending authority is opened on a bi-monthly basis.

Curiously, the independent and conditional budgets run on two different fiscal years. The FY of the conditional budget is the calendar year, January 1 to December 31, matching the national budget process. The FY of the independent budget runs from April 1 to March 31. The authors conclude that this system may have been adapted in some way from the French model, although if that is the case, it was misinterpreted along the way. The dual budget system is unknown in other parts of Western or Central and Eastern Europe. Local governments in Albania keep one consolidated budget, but are to report to the central government on state transfers in the calendar year, and then are supposed to reconcile the independent budget based on the local budget year.

However, this dual budget year system has never been adapted as a practical matter. Local governments all follow the same budget cycle of the national government, which is at any rate a more sensible alternative. When the end of year accounting is carried out, local governments prepare two "sub-budgets," one which accounts for the expenditure of state funds and the other which accounts for the expenditure of local own revenues.

If a local government's final conditional budget is not approved by December 31, a frequent occurrence, given the fact that the state budget is often not approved until January or later, the state provides monthly central government transfers for operating expenses in the amount of 1/12th of the previous year's funding. The independent budget must be approved by March 15 of the budget year, although it is not clear what sanction or penalty is applicable beyond the 1/12th funding rule previously described.¹⁷ One interpretation is that 1/12th funding continues with no possibility of revision or adjustment for inflation or increased costs.

Local budgets must be balanced.¹⁸ If locally generated revenues are higher than estimated in the budget, local governments can request an increase in the independent budget accordingly. They cannot spend the excess revenues until the revised budget is approved by the Ministry of Finance and/or other line Ministries (especially for investments). Since there are national caps for local government operating and investment expenditures, expenditure of excess local revenues may not be approved if doing so would exceed the national ceiling. This was the case in Tirana during 1997. By the same token, if revenues are lower than forecast, expenses must be reduced by the same degree.

This system penalizes local governments, by discouraging efforts to improve local revenue collection; why make an effort to alienate local citizens by making them pay fees and taxes, if it is not certain that the local authority will be allowed to spend the funds to improve local services and infrastructure?

Although local governments in theory operate their budgets according to Law No. 7776 on local budgets, the line Ministries are functioning based on Law No. 7616, on the State budget. As long as most expenditures and revenues are based on the conditional budget, local governments will have little financial autonomy. In fact, according to Article 15 of Law No. 7776, "... The ones who give orders for the conditional local budget funds are defined by Law No. 7616 of 30-Sept.-1992 'For the Preparation and Implementation of the State Budget of the Republic of Albania'." This stipulation in effect takes away from local governments the authority to manage most of their funds in accordance with the best interests of the locality, as all essential decisions for the conditional funds are made at the central level, by the line Ministries.

¹⁷ Article 11, Law No. 7776.

¹⁸ Article 9, Law No. 7776.



The Albanian local government budgeting system is unique in its strong degree of expenditure-based formatting, which is a holdover from the old system. All revenue estimates are based on what projected expenses will be throughout the local government. It is determined how many teachers, garbage trucks, and street cleaners are needed, based usually on the previous year's level of service, and then it is attempted to generate enough revenues to cover the costs. This type of system is in contrast to most market-oriented democracies in which expenditures are formulated first on what the total revenue base is in any locality, not the reverse.

Revenues

In the analysis of local budget finances, local revenues may generally be classified in three broad categories:

- Local taxes and fees
- Shared national taxes
- Transfers

The following discussion is based on this classification. In the Albanian budget reporting framework, “independent revenues” include shared national taxes and local taxes and fees.¹⁹ These account for only five percent of total revenues in municipalities and districts, and even less in communes. “Conditional revenues” are direct central government transfers, which in Albania are totally earmarked and represent about 95 percent of total local government revenues.

Local Taxes and Fees

Local taxes and fees are those revenues which are assessed and collected in the jurisdiction of the local authority, and for which the full amount collected is transferred to the local government. Local taxes and fees may be collected directly by the local government or by a revenue collection enterprise under its direct authority. These taxes and fees may also be collected by the national government, and transferred to the account of the local government.

There are between 10-20 local taxes and fees. The most important ones for Albanian local governments are the solid waste fee, the business registration fee, the market tax, and the small business tax. The rates are typically fixed in lek amounts. Local governments do not have the possibility to change the rates, which have been fixed by Law No. 7777. Although the law on administering taxes and fees authorizes the Ministry of

¹⁹ In the Albanian framework, the solid waste fee, business registration fee and stamp tax are classified as national taxes transferred by the Central Government. In our analytical framework, these are local taxes and fees, as the full revenue belongs to the local governments; the collection agency is not the determining factor for classification. The only shared national tax is the property tax.

Finance to make an annual adjustment of the tax base for all fixed taxes and fees according to the average annual inflation index, to date the MoF has not availed itself of this tax rate adjustment authority.²⁰

The *solid waste fee* is divided into two parts: a fee for removal and treatment, and a fee for disposal (composting). The law creates 18 separate fee categories, including household wastes, repair businesses, restaurants, shops, schools, etc.²¹ For households, schools, and hospitals, the fee is based on a fixed amount per month per person or per bed. For many types of businesses, the fee is set on lek per square meter per month, with thresholds based on the overall surface of the business. Restaurants pay the monthly fee per seat. The collecting agency retains 5 percent of revenues collected from state legal entities, and 15 percent for revenues collected from private individuals and legal entities (the bulk of solid waste fee payers), to cover its costs.

As with most types of fees and cost estimates in Albania, the solid waste fee is very likely based on an old accepted set of norms, and does not reflect the real cost of providing waste removal and treatment services. The fee cannot begin to finance the service for which it has been established nor can it reflect the great increase in the amount of waste which is produced per person and per entity since the transition to a market-based economy. In Elbasan, for example, a contract to manage solid waste collection is expected to cost 42 million lek per year, while planned revenue from the solid waste fee for 1997 amounted to only 3.8 million lek.

In the original law on the tax and fee system, the state power enterprise KESH was designated to collect the solid waste fee.²² In a revision of the law passed in 1996, this responsibility was turned over to the post and telecommunications enterprise.²³

The *business registration fee* is collected from all entities, legal or individual, private, public or foreign who carry out business activities in Albania. The annual fee is fixed at 10,000 lek per business, and 1,000 lek for individuals who provide or sell services without a fixed a place of business.

The *market tax* is set at 30 lek per day per square meter. There are also market fees on weighing and measurement equipment, for 20 lek per day. This single rate is set nationally, irrespective of local economic and market conditions. The municipality and

²⁰ Article 25, Law No. 7681 of 04-Mar-1993 For Administering Taxes and Fees in the Republic of Albania.

²¹ Article 7, Law No. 7777.

²² Article 8, Law No. 7777.

²³ Law No. 8101, of 28-Mar-1996, "On Some Changes to Law No. 7777".



commune councils are vested with the authority to collect the market fee.²⁴ Both Tirana and Elbasan, for example, have created separate municipal tax and fee collection enterprises, which collect the market and other taxes.

A *small business tax* was established on all legal entities and individuals with a turnover of less than 2 million lek and who are not subject to the value added tax (VAT). The rate of the turnover tax is 5 percent for retail traders.²⁵ Through the law on the fee system, local governments have been given the authority to collect an additional one percent of total turnover on bars, restaurants, hotels or discotheques, based on state tax office estimates.

The *hotel tax on foreigners* is set at a 10 percent surcharge over the price of the hotel room; the tax is collected by the hotels and remitted to the local governments.

The law on taxes and fees also permits local governments to "establish temporary fees to pay for needed services," and the rates are to be set "with the agreement of the people of the district, municipality, or commune."²⁶ This provision is actually quite wide-ranging, especially as the notion of "needed services" has not been defined. As discussed in the analysis of local finance trends, local governments appear to have implemented several types of temporary fees in order to raise additional revenues.

The collection of some local fees is handled by central government institutions or enterprises. This is not a problem in principle, but in fact collection of important local revenues such as the solid waste fee has been changed by the Council of Ministers on occasion and without consultation with local governments. It is now mandated that solid waste bills be paid along with telephone bills at the state post and telecommunications offices. Since only one-third of Albanians have telephones, and collection rates are not 100 percent, a large source of local revenues has been jeopardized.

Although own local taxes and fees offer the greatest potential for full local autonomy, many elements of the existing framework currently limit this potential. The main limitations are the following:

- ! No automatic adjustment of fixed tax bases for inflation, leading to a real loss of value of potential tax income.
- ! No possibility for local governments to set the rates of local tax and fee, to account for local fiscal conditions and capacities.

²⁴ Article 8, Law No. 7777.

²⁵ Articles 1 and 3, Law No. 7679, of 03-Mar-1993 For Small Business Tax.

²⁶ Article 4, Law No. 7777.

- ! Difficulty of oversight for taxes and fees collected by central government institutions rather than by the local governments themselves.
- ! Inability to freely determine the spending allocation of revenues from own local taxes and fees, and as a result, trapping them in the treasury system when end of year surpluses are captured by the Government.

Shared National Taxes

Shared national taxes are assessed and collected by the central government, based on uniform national rules and procedures. The national government shares a part of the revenues with the local government and keeps the balance. In many Central European countries, the personal income tax (PIT) and corporate income tax (CIT) are often the taxes shared with local governments. In Poland, local governments receive 15 percent of PIT and 5 percent of CIT collected in their jurisdiction. Hungarian local governments receive 25 percent of PIT collected in their jurisdiction.

In Albania, the property tax is the only example of a shared national tax.²⁷ The property tax is regulated by a separate law, "For Property Tax in the Republic of Albania" (No. 7805 of 16-Mar-1994). This tax originally consisted of a tax on buildings and a tax on agricultural land.²⁸ Initially, the full revenues of the tax were to be shared 40/60 between the central and local budgets respectively. This proportion was changed in 1995, by reducing the share of local government to only 20 percent. According to MoF sources, a Government decision, No. 11 of December 2, 1996 defines specific ways that revenues from the property tax were to be used. Ultimately, tax collected in 1996, as well as the balance of property tax remaining from 1994-95 was transferred to the State treasury account.

The agricultural land tax was suspended by Presidential decree in 1996, before the elections. The building tax remains in effect. The residential portion of the building tax is currently collected only on single-family homes and not yet on apartments in privatized buildings. It is based on the floor surface area in square meters and the tax is calculated on a rate of lek per square meter per year. Unusually, public and religious buildings are not exempt from this tax, and must pay a rate of 2 lek per square meter annually.²⁹ This non-exemption of public buildings adds to central and local government costs, as they are paying the tax to themselves.

²⁷ It should be noted that the property tax is most often defined as a purely local tax in most Central and Eastern European countries, as well as in Western Europe and the U.S.

²⁸ Article 1, Law No. 7805.

²⁹ Article 17, Law No. 7805.



Assessment and collection of the property tax had initially been the responsibility of the state tax collection office. Local governments have no recourse if the local tax office fails to collect the tax, or to share it in the proportion established by law, as has frequently happened. The property tax is now collected by KESH.

The current government seems to be interested in changing the distribution of this tax and the MoF Tax Department has proposed a draft decision to attribute 100 percent of building tax revenues to local governments. It is not expected that the agricultural tax will be reinstated in the immediate term as it is thought to be politically very difficult.

Transfers

Transfers are generally additional resources made available to local governments through the national budget. They may be general transfers or earmarked for specific purposes. In most local government finance systems, such transfers are usually calculated by a formula, which may take account of different variables, based on defined policy goals, such as ensuring the financing of a basic level of local services, or taking account of local fiscal capacity (equalization function). Whatever the objective of transfers, the means and formula for allocating central government transfers should be transparent and stable.

Transfers to Albanian local governments are referred to as the “conditional budget” in the relevant laws and in budget reporting and usage. The amounts of the direct central government transfers given to local governments represent at the same time revenues and expenditures for delegated tasks. The main laws on the state budget and local budget do not provide any essential information on the direct transfers from the central budget. For example, these laws do not define the basis on which the transfers are calculated; they do not identify who calculates the transfers, nor who distributes the funds, nor the services for which transfers are given.

In budget reports, the transfers are usually identified by the Ministry responsible for oversight of the specific sector. The main sources of funds include:

- ! MPWT for solid waste and city cleaning, parks and green areas, roads and sewerage, city decoration, cemetery maintenance, and urban transport.
- ! Ministry of Education for elementary and secondary schools and training institutes.
- ! Ministry of Health for poly-clinics, dental clinics and hygiene service.
- ! Ministry of Culture, Youth and Sports for houses of culture, theaters, museums, cinemas, youth centers, and sports centers.

- ! State Secretariat for Local Government for local administration personnel, local council expenditures, nurseries, and the civil census.
- ! Ministry of Labor and Social Assistance for social assistance transfers.

Discussions with local government officials seem to indicate that the individual line ministries wield great powers of discretion over these transfers, in the manner in which they are determined and distributed. The ministerial officials plan the budgets on the basis of an ideal number of employees, according to a set of norms which have been passed down and which appear to be based in only a limited way on the local context or local needs for providing a specific service. The primary focus appears to be on employment levels and not the level or quality of local service which is to be provided. In the middle of the fiscal year, a Ministry may decide to cancel a budget allocation in one city and transfer it to another city, without the obligation to consult the city which is short-changed.

Expenditures

As described previously, the main law which defines local government organization and functioning is not very specific on the actual tasks of local governments. For instance, the meaning of the word "ensures" in this legislation can be interpreted in a number of ways.³⁰ If local governments are responsible for "ensuring" the functioning of the local transportation system, does that mean that they are simply responsible for carrying out central government instructions, such as fixing a pre-determined stretch of road? Or does "ensure" mean that local governments are legally responsible for making sure that the entire system functions at some level regardless of central government support? In addition, does "ensuring" imply that local governments have some sort of ownership over local roads and transportation systems or that they are merely acting on behalf of the central government? Discussions with local government officials indicate that the answers to these questions are not evident.

Likewise, other general functions of local governments are defined, but without information or instructions as to how those functions are to be carried out. Local governments must "ensure" the implementation of the local urban development plan, but are not given any tools to do it. The plans can be prepared by the local government office, but they must be approved at the district level. Changes to the plans must be approved by the Ministry of Public Works or in some cases the National Committee on Territorial Adjustment. Since illegal construction is the most significant threat to the existing urban development plans, a local enforcement mechanism is essential. A law has recently been

³⁰ Articles 14 and 34, Law No. 7572 of 10-Jun-1992, "On the Organization and Functioning of Local Government."



passed which will establish a municipal police force, but it has yet to be implemented.³¹ In addition, the law leaves the authority for personnel decisions wholly in the hands of the central government, so it is unclear how much independence the new forces will have.

As with revenues, the Albanian local government budget system separates expenditures into the “conditional budget” and the “independent budget”. The major distinctions arise from the sources of funds which finance conditional or independent expenditures, and the rules and limitations on how these funds may be used.

Conditional expenditures for operations and investment are financed by direct central government transfers. About 95 percent of revenues of municipalities are direct transfers to finance specifically defined operating and investment expenditures. The use of these resources is defined right down to Chapter and Article. The process described by local and national officials for the distribution, control and use of the conditional budget indicates clearly that this part of local government financing continues to be completely incorporated into the State Budget process, as per Law No. 7616, and implementing regulations of MoF and relevant line Ministries.³²

Once expenditure allocations of the conditional budget (operating and investment) have been communicated to local governments, they have absolutely no authority to make any changes at all. They may not re-allocate funds from one article to another within an expenditure area, nor re-allocate funds among expenditure areas, based on local needs and efficient service provision. Thus rather than delegating tasks, the line ministries appear to treat local governments as mere “paying agents” who handle the paperwork, with amounts and priorities established centrally. If these functions were truly delegated, local governments would have more say in planning and implementing expenditures, and the ability to make decisions based on local conditions to ensure improved efficiency and service provision. One clear case where local governments are able to add value and make decisions for a delegated task is in the area of social protection subsidies.

The “conditional operating budget” includes *all* expenditures for wages and social insurance as well as most other general operating expenditures for activities that have been delegated to the local government. This includes expenditures for the following sectors and services:

- *Education:* kindergartens, first, second and middle schools, and orphanages
- *Health:* creches, health centers

³¹ Law No. 8224 of 15-May-1997, “On the Organization and Functioning of the Municipal and Communal Police.”

³² Article 41 of Law No. 7616 includes a “transitional provision” which specifies that until the establishment of local governments and their new authorities, “... the relationship of the national budget with the local budget will continue in the forms used today, which means covering nearly all the expenditures of local government, and incorporating all revenue, into the state budget process.”

- *Culture*: houses of culture, libraries, cinemas, theaters, municipal museums
- *Agriculture*: social subsidies for the shortage of agricultural land, local irrigation networks, veterinary services, communal pastures
- *Environment*: solid waste, sanitary and wastewater network, water supply network
- *Transport*: urban public transport, local roads not part of national road network

Expenditures of the independent budget are limited to articles 03 (operating expenditures) and 05 (investments). Even within those constraints, local governments are not entirely free to do what they like with funds collected under the independent budget. When the budget allocations are approved by Parliament, and notified by the Ministry of Finance, a specific authorized amount of funds is determined for operating expenditures and for investments. Within these limits, the allocations among specific expenditures categories may be determined by the local government (urban transport vs. education).

Limiting the use of independent budget to operating expenditures and investment can severely limit the ability of local governments to provide needed services. For example, in the city of Elbasan, an orphanage was recently built with the assistance of the Albanian Development Fund. However, orphanages fall under the responsibility of the Ministry of Education. The Ministry names the director, on the suggestion of the mayor and the prefect. As of early 1998, there had been no central budget allocation for salaries to hire employees for the orphanage. Although Elbasan would be willing to use its independent revenues to pay for salaries, the city, by law, does not have the right, nor the authority to independently pay the salaries of employees of a State institution. The city may only allocate available spending authority in the 03 article to finance the maintenance costs of the orphanage.

An issue which further limits the autonomy of local government finances is the tight control over spending of local funds by state treasury offices. No local government may spend more than 10,000 lek in cash in one day for materials and supplies, which forces expenditures to be broken up over several days if they exceed the 10,000 lek maximum. Although there are valid reasons for caps on cash expenditures to be maintained, the low value of the cap makes it very impractical to pay normal day to day expenses. It creates more superfluous paperwork and bureaucracy for local finance officers.

Availability of End-of-Year Surplus

The legal framework in Albania provides that surplus budget funds derived from locally generated revenues may be carried over to the next budget year.³³ Since local revenues are a relatively small part of the overall local budget, about 5 percent overall for all local governments, and ranging up to 10 percent for the larger cities, this is a minor

³³ Article 22, Law No. 7776.

financial benefit but a symbolically significant one. On the other hand, central government funds not expended by the end of the budget year are returned to the state treasury.

In practice, local governments have never been able to carry over their excess funds to the next budget year. Each year the Council of Ministers has passed a decision or decree which requires all or some part local budget surpluses, i.e., those funds not expended by the end of the budget year, sometimes even before the end of the budget year, to be transferred to the state treasury account, regardless of whether they are local funds, shared taxes, or direct transfers. Since local governments are not allowed to maintain their own independent bank accounts, even for locally generated revenues, there is no way for them to safeguard their own revenues from this type of ad hoc decision. Local governments are given other incentives to spend all of their funds, which are not based on any legislation the authors could identify. The state treasury office disburses the central transfers on a bi-monthly basis to local governments. If less than 70 percent of those funds are spent within that bi-monthly period, the balance cannot be carried over to the next period and is lost. Only if more than 70 of funds are spent can the balance be carried over.

LOCAL GOVERNMENT FINANCE TRENDS

Local Governments in the Macroeconomic Context

Local government aggregated budget expenditures are compared to Albania's GDP, general government expenditures and central administration expenditures (Table 1).³⁴ In the overall economy, local governments accounted for about 4 percent of GDP from 1995 to 1997. For 1995 and 1996, the share of local governments in general government and central state expenditures was stable at 13 and 16 percent, respectively. This ratio was unusual in 1997, as central government outlays declined sharply, while local government expenditures increased, in nominal terms.

Table 1
Macroeconomic Context for Local Governments

	1995	1996	1997
<i>Macroeconomic indicators (million current lek)</i>			
Gross Domestic Product (GDP)	229,800	281,000	338,200
General Government Expenditure	73,076	87,143	60,605

³⁴ General Government Expenditures consist of State central administration + local government + insurance fund.



Central State Expenditure (excl. social insurance & LG)	59,830	70,788	40,896
Local Government Expenditure (excluding independent budget)	9,570	11,641	14,344
<i>Ratios (percent)</i>			
LG Expenditures / GDP	4.2	4.1	4.2
LG Expenditures / General Government	13.1	13.4	23.7
LG Expenditures / Central State	16.0	16.4	35.1



International Comparison

Table 2 compares the weight of Albanian local governments with some countries of Western Europe as well as with other formerly Socialist countries.

Table 2
Comparison of Albanian Local Governments with Other European Countries

	LG in Economy (percent of GDP)	LG in State Spending (percent of central state expend.)
Albania (1996)	4.1	6.4
Romania (1995)	4.5	20.6
Poland (1995)	7.0	14.0
Belgium (1991)	6.1	11.8
France (1991)	8.1	17.2
Germany (1991)	6.2	13.3
Italy (1991)	14.7	29.5

As a percent of GDP, the weight of Albanian local governments is quite low, at less than 5 percent, and is similar to Romania. Local government spending as a percent of central state expenditures (16 percent) places Albania in the mid-range, close to the level of Poland and Germany. The place of local governments in the national economy depends on the tasks and competencies assigned, as well as national and local fiscal and budgetary sources to which the local sector has access. Of course this ratio is not an indicator of the autonomy and independence of local governments to dispose of these funds.

Analysis of Local Government Financial Conditions

Analyzing the financial conditions of Albanian local governments as well as of individual cities is somewhat difficult, as total budget revenues and expenditures are not aggregated. Local budget administration is based very much on the source and use of specific funds, as well as on the distinction between the conditional budget and the independent budget. In addition, although the sources of the "independent budget" were made available, there was no information on how these funds were spent (general operating expenditures or investments? road maintenance, creches, municipal administration?). Thus, although we may have an idea of total expenditures, information on appropriation of all expenditures is not available.

Given these limitations, it is almost impossible to perform a standard budget analysis and reasonably calculate any ratios of "savings capacity" or end of year surplus.

Current budget reporting norms and the logic of the Albanian system exclude the notion of an operating budget as opposed to an investment budget and of planning an operating surplus to finance investments from own local sources.³⁵

Table 3 presents the basic data on local governments, with information presented for municipalities, communes and districts, to get an overall general view of the relative proportions of different sources and uses of the budget. This table indicates the total amount of the conditional budget (that is, central government transfers), divided by end use—operating budget or investment budget, as well as the total amount of independent budget revenues (shared national taxes plus own local taxes and fees).

Table 3
Overall Budget Situation — Albanian Format

	Municipalities		Communes		Districts	
	1996	1997	1996	1997	1996	1997
<i>million lek</i>						
Total Conditional Budget [CB] (Revenues = Expenditures)	8,908.3	9,072.3	7,744.7	6,797.3	3,383.7	1,929.7
<i>of which:</i>						
Conditional Operating Budget	7,821.9	8,863.6	7,691.9	6,761.4	1,879.9	1,430.1
Conditional Investment Budget	1,086.4	208.7	52.8	35.9	1,503.8	499.6
Independent Budget [IB] ^a (Revenues)	425.6	224.5	33.3	17.6	226.2	69.6
<i>Ratios (percent)</i>						
Investment as percent of Total Conditional Budget	12.2	2.3	0.7	0.5	44.4	25.9
Independent Budget as percent of Total (IB + CB)	4.6	2.4	0.4	0.3	6.3	3.5

Note

^a Independent budget revenues consist of shared national taxes and own local taxes and fees.

Source: Ministry of Finance, Budget Department.

³⁵ The *Savings Capacity* would generally be equal to Recurring Revenues (Operating Expenditures + Debt Service). In most local government finance systems, net savings capacity is an indication of the means local governments dispose of to finance investment and eventual debt payments from own revenues. Because Albanian local governments have almost no say on how their conditional or even “independent” budget may be spent, it is difficult to calculate this ratio in the current system.



Two illustrative ratios may be calculated from this table. The first ratio indicates the level of investment funded through the conditional budget (the amount of investment funded through other sources of revenues is not available). The situation varies greatly by type of local government. The largest share of investment funding (in absolute numbers and in percent) is allocated to the districts, and in 1996, the conditional budget for district investment was over 40 percent of the total conditional budget (CB). Investment funding to municipalities accounted for 12 percent of the CB in 1996, and fell considerably in 1997. Investment resources allocated to communes is insignificant. Thus, it appears that most of investments targeted to communes may be under the responsibility of the districts.

The second ratio identifies the weight of independent budget revenues (IB) as a percent of the total of independent plus conditional resources. Once again in 1996 and 1997, both districts and municipalities show higher rates of IB resources (6 and 3 percent in the districts, 5 and 2 percent in municipalities), while these resources account for less than 1 percent in communes.

Details of the actual conditional budget of recurring expenditures (salaries, social insurance, operating expenditures and price subsidies) for 1995-1997, the proportional breakdown of the budget and evolution (net of inflation) for municipalities, communes and districts are presented in Annex E .

For municipalities and communes combined, the recurring conditional budget of 1997 amounted to 15.6 billion lek, a small nominal increase over 1996, but a decline of 30 percent in real terms, given the inflation of 42 percent in 1997. The two main areas of expenditures are education (47 percent) and social assistance benefits (25 percent). By type of expenditures, 50 percent of funds were devoted to salaries and wages.

District budgets received much smaller central funding, with 1.4 billion lek in 1997, a nominal decrease from 1.9 billion in 1996 and a real decrease of 46 percent. The two main areas of responsibility of the district are health (46 percent) and education (26 percent). Salaries accounted for 53 percent of these expenditures, and operating expenditures, 30 percent, as there were almost no social protection subsidies distributed by districts.

In addition to the conditional budget, local governments obtain additional funds through the "independent budget", which are own local taxes and fees plus shared national taxes. The tax bases and tax rates for most of these taxes are included in the law for the fee system in the Republic of Albania (Law No. 7777 of 22-Dec-1993). The property tax and small business tax are regulated by separate laws. The independent budget also includes other revenues, such as from rents, privatization, grants, etc.

Table 4
Independent Budget (IB) Revenues

	Municipalities (million lek)		Communes (million lek)		Districts (million lek)	
	1996	1997	1996	1997	1996	1997
<i>Total Revenues (IB)</i>	425.6	224.5	33.3	17.6	226.2	69.6
Shared national taxes	0.0	0.0	0.0	0.0	0.0	0.0
<i>of which: Property tax</i>						
Local taxes and fees	234.7	122.4	17.7	9.2	167.7	12.2
<i>of which: Business registration</i>	60.8	21.2	6.1	2.8	9.7	3.2
<i>of which: Market tax</i>	94.5	30.8	1.6	0.7		0.1
<i>of which: Solid Waste Fee</i>	38.5	64.6	3.3	2.4	5.0	0.1
<i>of which: Other taxes and fees^a</i>	81.9	34.7	14.5	7.7	160.2	8.6
<i>of which: Hotel tax</i>	22.1	27.4				
<i>of which: 1% Turnover tax</i>	16.1	13.5	0.7	0.4		
Other revenues	91.6	16.2	6.2	3.1	43.8	54.0
<i>of which: Rents</i>	55.7	13.4	1.7	2.9	39.1	53.9
<i>of which: Privatization</i>	19.2	0.3			3.9	

Note

^a These are other taxes and fees collected by local governments, which are not included by law in Law No. 7777, but are determined locally by individual local governments (for example, such as the Land Tax in Tirana, see Table 5).

Source: Ministry of Finance, Budget Department.

The only shared national tax is the property tax, of which local governments are supposed to receive 40 percent. Although the MoF data indicates no revenue from the property tax in 1996 and 1997, both Tirana and Elbasan budget data record income from this tax (see Tables 5 and 6).

Local governments have been active in imposing minor fees for public services ("Other taxes and fees"). In municipalities, these accounted for 19 and 15 percent of IB revenues in 1996 and 1997, respectively. Districts also seem to have collected considerable revenues from other taxes and fees in 1996, accounting for 70 percent of the independent budget in 1996, but declining to 12 percent in 1997.³⁶

³⁶ Given the unusually high amount, it is not excluded that this number may be an error. Further information will be required.



Excluding property taxes, independent budget revenues are quite concentrated in Tirana, (and very likely, Durrës), where in 1996, 39 percent of the total amount of IB revenues were collected.

Other own sources of revenues include income from local economic or business activities which are financed by the local government, and fines and penalties applied within the competencies of the local government legal framework. Additional revenues are permitted as "defined by law," although the team did not identify any additional legislation in which local taxes are permitted. Rents and revenues from privatization are particularly important for municipalities and together accounted for 17 percent of IB revenues in 1996. It is unclear if privatization revenues have dropped since then because of a fall in privatization activity, delays in transferring funds, or a combination of the two.

Other sources of income can include grants or assistance from donors and local government partner organizations in foreign countries. Since many donor programs operate in Albania, a number of local governments have benefitted although there have reportedly been problems with the ability of local governments to "co-finance" project costs, as expenditures on any major project requires the approval of the central government, even if financed from own revenues.

Budget Situation for Tirana and Elbasan

Tirana

The capital city, Tirana has seen its population explode from 350,000 in 1992 to an estimated population of more than 600,000 today. Annual population increase has been 9 percent over the past few years. As a dynamic area of growth and the main economic center of the country, there is good potential for revenue growth in the city, to the extent that the city revenue collection service is organized, well-staffed, and vigilant, and that the city disposes of adequate enforcement means against uncooperative taxpayers.

Of Tirana's total independent budget revenues, the share collected directly by city agencies has increased since 1994, from one-half to two-thirds of the total. The reasons for this increase may be due partly to increased economic activity in Tirana and also to improved efforts by the city tax collection enterprise to pursue revenues. Only five taxes account for three-quarters of the independent budget revenues: property tax, hotel tax, market tax, land tax and the 1 percent turnover tax.

Table 5
Tirana: Independent Budget Revenues (1994 - 1997)

	1994 Actual (million lek)	1995 Actual (million lek)	1996 Actual (million lek)	1997 Actual (million lek)
<i>Total Revenues "Independent Budget"</i>	117.0	191.9	230.2	259.4
Shared National Taxes	0.0	0.0	64.0	60.0
<i>of which: Property tax</i>			64.0	60.0
Local Taxes & Fees	101.0	134.4	164.5	196.2
<i>of which: Market tax</i>	21.3	41.8	48.0	55.0
<i>of which: Hotel tax</i>	10.6	10.6	20.0	57.0
<i>of which: Business registration fee</i>	22.9	23.8	23.0	16.8
<i>of which: Land tax</i>	20.7	32.0	29.0	20.0
<i>of which: 1% Turnover tax</i>	6.4	6.7	8.8	16.0
Other revenues	16.0	57.5	1.7	3.2

Source: City of Tirana Finance Department.

Although the city has made an effort to collect own local taxes, the value of these is minimal, compared to the total of centrally financed expenses which account for 90 percent of the city budget. In 1996, total conditional expenditures were over 2 billion lek, of which 32 percent was for education, 30 percent for public works and transport, and 12 percent for health care.

Expenditures for investment, over which the city had very little control, have amounted to absolutely insignificant amounts since 1995: 27 million lek in 1995, 91 million in 1996 and 16 million in 1997, all for projects related to public works (sewerage, road, water supply).

Elbasan

Elbasan is the third largest city in Albania, with a population of about 115,000. In the valley adjacent to the city, an enormous steel works and metallurgical plant was constructed in the 1970's. With the privatization of the economy, this type of gigantic factory is no longer viable and the mill only runs at partial capacity, specializing in certain types of steel and iron works. Due to the reduced economic activity, one-quarter of Elbasan's population (6,000 families) requires special social assistance.

For Elbasan, a larger share of total IB revenues has been collected directly by the city (60-70 percent) than the funds transferred from the Central Government. The main



taxes of Elbasan are the market tax, business license fee and property tax. Although the MoF data indicate that no property taxes were transferred to local governments in 1996 and 1997, Elbasan indicates that sizeable revenues were collected under this tax: 13 and 27 percent, respectively.

Table 6
Elbasan: Independent Budget Revenues (1994 - 1997)

	1994 Actual (million lek)	1995 Actual (million lek)	1996 Actual (million lek)	1997 Actual (million lek)
<i>Total Revenues "Independent Budget"</i>	7.6	17.0	19.6	22.9
Shared National Taxes	0.0	0.0	2.5	6.2
<i>of which: Property tax</i>			2.5	6.2
Local Taxes & Fees	7.4	16.1	13.9	15.0
<i>of which: Market tax</i>	3.4	4.2	3.5	3.5
<i>of which: Business license fee</i>		6.0	4.1	2.1
<i>of which: Solid Waste Fee</i>	2.2	1.8	1.6	3.9
<i>of which: Transport permit</i>		1.3	1.2	0.6
Other revenues	0.2	0.9	3.3	1.7

Source: City of Elbasan Finance Department.

INVESTMENT AND INFRASTRUCTURE FINANCING

The main legislative texts which set out local government responsibilities do not elaborate in detail on the extent of local responsibilities for investment. The law on the state budget indicates that local budget revenues can be used for "...social-cultural and investment purposes."³⁷ The law on local budgets states that expenses for investments are included in the expenses of the independent local budget, but makes no mention of investment expenses as part of the conditional local budget.³⁸ There also does not appear to be a clear definition of what constitutes investment and nowhere in any texts is any clear distinction made between new investment, rehabilitation and renovation.

Public Procurement of Local Government Investment

³⁷ Article 3, Law No. 7616.

³⁸ Article 7, Law No. 7776.

The Law on Public Procurement (Law No. 7971 of 26-Jul-1995) applies to the procurement of goods and services from public funds; however, public funds are defined as "... every monetary value originating from the state budget, from revenues of state enterprises and companies with the Government as a majority shareholder".³⁹ This implies that local governments are required to follow public procurement rules for projects financed by the conditional investment budget, but not for those investments financed by the independent budget. Nevertheless, as good practice, local governments should follow open and transparent procurement procedures for such projects.

Once investment amounts and projects financed by the conditional investment budget have been notified at the local level, the local government prepares bidding documents and issues tenders for the projects. Table 7 below indicates the different procurement methods permitted and the threshold values for each method, as per Decision No. 12 of 01-Jan-1996 on the Rules of Public Procurement.

If a project financed by the conditional investment budget is less than 5 million lek, the local authority may initiate the project and proceed with the procurement process without any additional approval required of the appropriate line Ministry. However, for projects of more than 5 million lek, the successful bidder must also be approved by the line Ministry (usually MPWT).⁴⁰

Table 7
Procurement Methods — Threshold Values

Method	million lek		
	Goods	Works	Services
Open tendering, <i>above</i>	5.0	10.0	1.0
Restricted tendering, <i>below</i>	5.0	10.0	1.0
Request for quotations, <i>below</i>	2.0	5.0	0.2
Direct procurement, <i>below</i>	0.1	0.1	0.1

Sources and Availability of Funds⁴¹

³⁹ Article 2, Law No. 7971.

⁴⁰ Note: This requirement is not part of Law No. 7971, but appears to be an additional requirement for use of funds of the conditional investment budget.

⁴¹ Only detailed information was available for the conditional budget. Data on the amount of investment financed by the independent budget was not made available.

Most funding for local government investments is distributed through the conditional investment budget. The total amount of investment expenditures of all Albanian local governments amounted to only 2.6 billion lek in 1996, or 13 percent of their total conditional expenditures, with one-half of these investments implemented by the districts. It should be noted that in 1997, the level of investment was unusually low for all classes of local government, and these figures are not representative. Nevertheless, this low investment level cannot begin to address major infrastructure deficiencies and renovation needs. The level of investment is also below comparable rates in most European countries and especially former socialist countries. For example, local government investment as a percent of total expenditures is 14 percent in Italy (where the needs are much less than in Albania), 25 percent in Poland (1995) and 30 percent in Romania (1995). Table 8 below presents the investment expenditures in 1996 and 1997 for each of the three classes of local government—municipalities, communes and districts.

Table 8
Investment Expenditures from Conditional Budget

	Municipalities		Communes		Districts	
	1996	1997	1996	1997	1996	1997
<i>million lek</i>						
Local Government	119.5	41.9	46.5	33.8	21.2	21.1
MPWT	769.5	93.5			879.9	118.3
Min. of Education	64.5	17.9	1.9	0.8	593.6	355.2
Min. Sports / Culture	129.1	51.0	3.9	1.2	5.3	3.1
Min. Health	3.8	4.4	0.5	0.1	3.8	1.9
Total	1,086.4	208.7	52.8	35.9	1,503.8	499.6
<i>investment by sector (in percent)</i>						
Local Government	11.0	20.1	88.1	94.2	1.4	4.2
MPWT	70.8	44.8	0.0	0.0	58.5	23.7
Min. of Education	5.9	8.6	3.6	2.2	39.5	71.1
Min. Sports / Culture	11.9	24.4	7.4	3.3	0.4	0.6
Min. Health	0.4	2.1	0.9	0.3	0.3	0.4

Source: Ministry of Finance, Budget Department.

Other Limits to Local Government Actions

Once local governments have successfully passed the hurdle of project authorization by the line Ministry and followed the tendering procedure, they are still faced with what seem to be arbitrary regulations which serve mostly to increase the costs of

investment projects without any real benefit to the local government. One such case is described below in Box 1.

Box 1**Impact of the Lack of Local Government Autonomy on Investment Costs**

An example is provided by the Public Administration Project in Albania, for a project in Berat to improve the storm water management system. Initial labor and material costs were estimated at 466,920 lek, with the work to be undertaken by local staff of a municipal maintenance enterprise, owned by the city. Then, three additional items were added to the initial estimate, resulting in a 46 percent increase in the final cost of works.

- 11% “detailed inventory” (management costs and small equipment items of the municipal enterprise)
- 15% profit factor, for the municipal enterprise
- 20% VAT

Explanations by municipal officials indicated that these additions are arbitrarily dictated by the MPWT. Although the city is having the work done by a municipal enterprise, it must be paid like a private firm. But these add-ons and the percent by which they increase the cost of the project do not take any account of the cost structure and economic situation specific to Berat. The municipality is given neither control over its “own” municipal enterprise nor the ability to use competitive market practices to reduce cost.

The basis for these conditions still needs to be researched. However, there is potentially a major opportunity to improve local government conditions and their capacity to finance infrastructure by freeing them from mandated burdens of added profits and taxes.

Local Government Debt and Borrowing Rules

Although there is nominal authority for local governments to contract debt to finance investment (see Article 6, of Law No. 7776), in practice, local governments do not appear to have taken on any loans. The law requires further implementing regulations (“credits used for investments in accordance with the legal clauses...”), which have never been issued. According to the State Secretariat for Local Government, this is in part because the Albanians do not have any experience in this area and do not quite know how to proceed in defining and structuring such regulations.



Because of the structure and functioning of local government responsibilities and finances, no local government would at present be considered creditworthy. However, in the medium- to long-term, and with a serious effort to create and strengthen the local revenue base and provide autonomy and responsibility for local spending and investment decisions, long term credit instruments could become a vital part of the financing of local level infrastructure.

MUNICIPAL PROPERTY AND ASSET MANAGEMENT

One of the biggest vagaries of the framework for local government in Albania relates to the ownership of property. The basic local government law charges that the local government must “organize the inventory of property belonging to the commune or municipality and oversee its administration.”⁴² This statement would seem to imply that local governments actually own property, but unlike decentralization processes carried out in most other Central and Eastern European countries, no specific properties or assets were ever legally transferred to local governments in Albania. The consensus is that all public lands and buildings legally belong to the state, meaning the central government of Albania. Local governments are authorized to utilize certain properties to carry out their responsibilities, such as the city hall or local parks, but they only “administer” them. These means they are responsible for physical maintenance, as approved in their independent and conditional budgets.

A major constraint that this situation places on local governments is that they are unable to exploit potential assets or even improve existing ones. If city hall, the local soccer stadium, or other public buildings are owned by the state, then local governments have little incentive to invest their independent resources into capital improvements which could improve the level of services they deliver. Likewise, vacant plots of land within local government territories cannot be developed by local governments or offered to the private sector because ownership is unclear. As a result, what could be a potential important source of income and economic development to local governments is often developed illegally and inefficiently into residential homes or commercial enterprises (kiosks). Infrastructure servicing costs are much higher for the local government when land is developed in this fashion.

There exist some competing draft decisions put forth by different ministries which purport to clarify this situation.⁴³ Drafts analyzed by the authors indicate that the laws would better define which properties come under local government administration. The laws would also authorize local governments to “exercise property rights on state-owned land within the territory of the municipality/commune.” The term “exercise property rights”

⁴² Article 19, Law No. 7572.

⁴³ These drafts are discussed in more detail in the Recommendations section.

needs to be further defined as it is unclear how much control this would give local governments in the Albanian legal context. Although the draft laws still raise a number of questions, and do little to clarify functional responsibilities or change the financial constraints under which local governments operate, they would improve the current situation substantially, if implemented, by clearly delineating which properties and assets are to be locally administered and which will remain the responsibility of the state.

MUNICIPAL ENTERPRISES AND PRIVATIZATION

As noted in the description of the legal framework for local government, delegation of local government tasks is unclear and lacks specificity. In fact, local governments carry out a number of responsibilities over which they have varying degrees of management and financial control.

There is a core of local services carried out by municipal/communal “departments.” The departments are directly under the supervision of the local government and are usually funded completely by the independent budget. These departments include tax collection (for local taxes and fees), so-called “green area maintenance” which maintains the publicly-owned land between buildings, street lighting, and building maintenance for public buildings.

Other local services are carried out by “enterprises.” The term “enterprise” means that the entity is a semi-autonomous structure with a separate director, budget, and staff, but still owned or controlled by the state or local government. Enterprises included in this category include solid waste, water and wastewater systems, and transport. Key management and financial decisions are not made by the local government but rather by the line ministries with functional responsibility for the sector, along with the Ministry of Finance. In most cases, the line ministry is the Ministry of Public Works and Transportation, which decides for each enterprise the number of employees and the maintenance and investment priorities and budgets. The Ministry of Finance sets public sector salaries for all employees, including those working directly for local government enterprises.

Many of these enterprises are now subject to privatization through the implementation of management contracts as part of an effort to improve the provision and efficiency of services.

Mayors have the authority by law⁴⁴ to name and dismiss the managing council of local state enterprises, including services which are provided locally and have a major impact on the quality of life, such as water and wastewater system. Despite this authority, real control over these enterprises remains at the central government level. The ministries

⁴⁴ Article 14, Law No. 7572.



tightly control the budget, investment, personnel, and payroll decisions, thus leaving the local government appointed management unable to restructure staff, buy or sell assets, nor to generally make important management or investment decisions. The state also maintains ownership over all physical assets of the water enterprises.

Solid Waste

The Ministry of Public Works and Transportation maintains several controls over the privatization of solid waste services, which have already been decentralized to the local level to the extent that they are carried out by municipal enterprises. The Ministry approves all tender documentation, including the total amount of the contract. The total contract amount is limited to the solid waste enterprise's expenditures for the previous year, with no provision for inflation, VAT (recently increased) or the possibility of improved service levels. In addition, the fee level for collection and disposal of solid waste is set by national law with no differentiation for actual local costs or adjustments for inflation. This situation restricts local governments' ability to set the solid waste fee at a level equivalent to the actual cost of providing the service.

An additional issue regarding the fee structure for solid waste management contracts is that the contractor is compensated based on the area of the city covered by its services, quoted in numbers of square meters. This method of calculation is based on past practices in Albania and is in contrast to the way most market-based contracts of this type are structured; typically the contractor is compensated based on the total volume or tonnage of solid waste hauled, which more accurately reflects the cost of service.

The decentralization of the authority to determine solid waste collection and disposal fees is currently under discussion within the GoA. One proposal will allow local governments to set the rates within a minimum and maximum level determined by the central government, but the matter is not resolved at this time.

Nonetheless, privatization of solid waste services appears to be taking hold at the local level. It is also one way local governments can more directly control the provision of these services, but this requires persistent and capable contract monitoring, which is not always present. The private companies implementing the contracts are not subject to any central government controls on employee or salary levels, and thus are generally more efficient than their public sector counterparts. The private companies also have better access to capital and modern equipment such as trash compactors and mobile containers; the local enterprises simply do not have the budget for these expenses.

Solid waste services started to be privatized in 1995 when the city of Tirana invited bids from international and domestic firms for the collection and disposal of solid waste in selected areas of the city. Two contracts were awarded to an Austrian and an Italian firm. As of the end of 1997, an estimated 65 percent of local governments were utilizing management contracts for solid waste services, and during 1998 it is expected that this

number will reach 100 percent.⁴⁵ USAID has played an important role in promoting and supporting the privatization of solid waste collection, including technical assistance in the tendering and contract monitoring processes through a pilot project in Tirana, and a roll-out to several additional municipalities.

Water/Wastewater

The infrastructure of the water/wastewater networks is generally in poor to fair condition across the country. Water fees are set at the national level by parliament, and were recently raised in February, 1997 to 15 lek per cubic meter for residential rates, a substantial increase over the previous rate of 5 lek per cubic meter. However, due to high rates of loss, under funded maintenance over decades, poor collection rates, and unbilled consumption, this fee does not even cover operating costs for most enterprises. The state subsidizes those water/wastewater enterprises operating at a loss; only 5 of 46 enterprises are currently profitable, based on information obtained. There is currently no charge for wastewater services, which are managed together with the water networks, and this service is funded completely by the state. The government has realized that the tariff cap should be removed and the authority for setting tariffs given to local authorities, but has not taken action.⁴⁶

Of all the strategic economic sectors still controlled by the state, the water sector is perhaps the best candidate for decentralization to the local level. The current government has developed an approach to privatization called "Privatization Strategy for Primary Importance Sectors," approved by the government in December, 1997. The document presents a strategy for the privatization of five strategic sectors of the economy, including the water resources sector. The main objectives of the privatization process as described in the strategy document are to:

- Ensure long-term sustained economic development and increase economic efficiency
- Increase market efficiency through promotion of competition and further deregulation
- Attract foreign private capital in the vital sectors of the national economy

The first stage in the general strategy, to take place during the first six to nine months of 1998, is to make improvements and amendments to the legal framework; conduct a complete inventory of all state-owned assets; transform the enterprises into joint-stock companies; institutionalize the appropriate regulatory bodies; and analyze past

⁴⁵ Estimate of Vladimir Bezhani, Director of Solid Waste Department, Ministry of Public Works and Transportation.

⁴⁶ Assessment from "Albania Donor's Conference: Sector Investment and Technical Assistance Programs for Recovery," World Bank et al, October, 1997.

issuance of privatization vouchers and potential solutions. The second stage includes a public information campaign along with selection and pre-qualification of strategic investors. At the third stage, the final decision making and implementation process will take place.

With regard to the water sector, much of the first stage has already been initiated. A law has been passed setting out procedures for corporatizing the existing water enterprises, and for establishing a regulatory commission to oversee the private sector involvement. As of the time of this report, however, no concrete steps had been taken towards implementation.

The key issue for this analysis is how privatization of the water sector will affect local governments. It is unclear at this time whether the water networks will be privatized wholesale, which seems unlikely except for the larger systems, or only in terms of their management and operation. Another alternative is for the water/wastewater networks to be turned over to local governments to manage and operate. This could involve granting ownership of the enterprises and systems to local governments, along with the proper incentives for investment and maintenance. At a minimum, giving local government full control over the systems would allow them to privatize different management and operations functions on a concessionary basis, similar to the way in which solid waste services are being privatized. These are open questions now being debated by the government.

The international donor community has recognized the importance of the water sector and its impact on Albanian quality of life. The World Bank, Italian Government, EU Phare, USAID, and other donors have committed over \$88 million for investment in the sector, and a significant amount of technical assistance has been delivered. Donors all agree that ownership of the systems, control of the operating functions and tariff setting should be a local government function. It seems likely that the GoA will wait to evaluate the results of donor-assisted pilot projects in Durrës and Tirana before implementing a national strategy.

NATIONAL AND LOCAL PRIORITIES FOR REFORM

General Objectives of the Government

The proposals for local government reform included in the program of the Government of Albania refer to very general principles: improving the normal functioning of local authorities, defining more clearly their competencies and responsibilities, improving relations between the central and local levels, and improving the qualifications of local elected and administrative officials. The Government has taken an initial step by creating an inter-ministerial task force for local government, chaired by the Deputy Minister of Finance and seconded by the Director General of the State Secretary for Local

Government. Of a total of 16 members, 5 are from the Ministry of Finance, 2 from the State Secretary for Local Government, and other members are the finance directors of the line ministries with an interest in local government affairs, such as public works, education, health, and social affairs. The MoF and the State Secretary for Local Government retain main responsibility for drafting the legislation.

The program of reforms covers the organization and functioning of local governments, finance issues, prefectures and civil status.

The specific agenda for the organization and functioning of local governments includes the following:

- New act on the signature of the European Charter of Local Self-Government
- New act on the appointment of the delegation for the Congress of Local European Authorities
- Improvements to Law No. 7572 on the organization and functioning of local government
- New act on local referendums
- New act on the regulation of the functioning of councils of districts, municipalities and communes
- New act on the competencies and tasks of district council administrative staff
- New act on the structure of municipal and communal police, number of personnel, wages and budget expenditures
- Regulation on the functioning of municipal and communal police

The agenda for finance issues includes the following tasks:

- New act on the functional tasks and financing of local government
- Changes to Decision 673 on criteria for use of local government revenues
- MoF instruction on the completion and implementation of local government budgets
- MoF instruction on the accounting system and reporting of the independent budget
- Improvements to Law 7776 on local government budget
- Improvements to Law 7777 on the tax system
- New act on the properties of local governments (ownership of immovable public properties)
- New act on the wage system for local governments

Priorities of the Albanian Association of Mayors

At the annual meeting of the Albanian Association of Mayors (AAM), in October 1997, a series of economic reforms and legislative modifications were proposed, in order to increase local government autonomy and decentralization. Two main areas of concern



were the means of allocation and use of central budget funds and increasing the capacity and flexibility of locally-generated resources.

For the allocation and use of central budget funds, the proposals are the following:

Short-term solutions

- The budget should be distributed at group level to each local government, and not at chapter/article level as is currently the case.
- Local government should be free to detail the chapter and article level.
- Transfers within each group would be responsibility of local officials.
- Local governments should have sole authority to release treasury funds approved in their budget.
- End all practices which freeze local government budget allocations, spending authority and carry-over of own surpluses.
- Municipalities should be involved in preparation, auditing and implementation of medium and long-term investment and development projects.

Medium-term solutions

- Budget allocations should be transferred as one sum and processed at the local level into group, chapter and article.

Proposals to improve the generation of own local resources include:

Short-term solutions

- For taxes shared between central and local government, increase the proportional share of the local government.
- Central government should not set specific criteria which limits use of own local taxes and fees.
- Set a share of a national tax for local governments, such as the VAT.
- Create a vehicle surcharge tax for local governments.

Medium-term solutions

- Establish a framework for the administration of assets by local governments.
- Determine which land/property belongs to local governments as legal owner.

RECOMMENDATIONS

Overview

Based on the analysis presented above, a number of recommendations can be offered to the GoA as the broad agenda for decentralization and strengthening of local governments is being considered. The difficulty in presenting useful, directed recommendations is the current pace of legislative reform in Albania, which by any measure could be considered extremely rapid and can change the basis on which recommendations are made. Events and information seem to evolve weekly, and it can be difficult to ascertain whether certain legislative reforms have been initiated and what their status is. Nonetheless, a number of general recommendations can be made. Recommendations have been divided into four categories, with some specific comments on draft legislation offered at the end of this section.

Principles

There are a number of basic principles enshrined in the European Charter of Local Self-Government which the GoA can use as a guide to the current reform process.⁴⁷

- ! **Scope of local self-government — basic powers and responsibilities.** The important component of this principle is that local authorities have full discretion to exercise authority for any matter not specifically excluded from their competence in law, and that they be able to adapt powers to local conditions. Furthermore, powers granted to local authorities should not be undermined by other state or local authorities except as provided by law.
- ! **Appropriate administrative structures and resources for the tasks of local authorities.** Local governments should be able to determine their own administrative structures in order to adapt them to local needs and ensure effective management practices.
- ! **Administrative supervision of local authorities activities.** This principle is aimed at ensuring that any administrative supervision exercised over local authorities is concerned only with ensuring compliance with the law and with

⁴⁷ An article by article comparison of the European Charter with the current situation in Albania is presented in Annex C.



constitutional principles. Also, supervision should be exercised such that intervention is proportionate to the importance of interests it is protecting.

- ! **Financial resources of local authorities.** The basic principle is that local authorities be entitled to adequate own resources, in part through local taxes and fees determined at the local level, which they can utilize freely with the framework of their powers. Also, financial resources should be commensurate with responsibilities local authorities have been assigned. Another important part of this principle is that local governments be consulted regarding the way in which redistributed resources are allocated to them, and that those resources not be earmarked for specific projects, to the extent possible.

Specific Recommendations

A series of specific recommendations are presented, organized around the basic principles of European Charter of Local Self-Government. Given the large number of reforms described, it is essential that the GoA and all other parties involved reach agreement on the phasing of the reforms which are both financially feasible and politically workable within the current economic and political context in Albania.

Not all of the recommended reforms are equally viable or desirable at this point in time. The current fiscal crisis confronted by the public sector will limit some options because implementation of all the proposed reforms may result in redistribution of revenues from the central to the local levels to a greater extent than desired at this time. In order to choose which reforms are most important, it is useful to compare them to the most important challenges that local governments in Albania face today. Through ongoing USAID technical assistance projects with local governments, an attempt has been made to note which recommendations are a top local government priority at this time and should be implemented in the short-term, as part of the current legislative reform package and in implementation of existing laws.

Scope of Local Self-Government

- ! *Short-Term Implementation.* Clarify local government responsibility to deliver services and clarify the role of the districts. (See the section entitled “Specific Comments on Draft Legislation”).
- ! *Short-Term Implementation.* Formally involve local governments in the inter-ministerial Task Force on local government reform. It is essential to include input from the governing authorities who will be most affected by the proposed reforms to ensure their concerns are addressed and that the reforms are appropriate to the local context and disseminated properly.

- ! Clarify the legal status and powers of local governments. Although local governments possess legal powers in theory, their legal rights are not defined in any detailed way. This uncertainty leads to management difficulties as local governments begin to take over responsibilities for local services and contract out to third parties. It is essential that local governments be able to enforce their legal rights in a court of law so that they can carry out the competencies for which they are responsible and protect their interests.
- ! Delegate authority to local governments to manage local staff for tasks for which they are responsible by law. At present, numbers of staff and pay scales are determined by the central government for all but a small core of local government administrative staff. This impedes streamlining of local administration by reorganizing staff to more efficiently and responsively provide local services. At a minimum, local governments should be authorized to hire and fire staff for delegated responsibilities and set incentive pay scales to retain desirable employees. This can be accomplished by allowing line ministries only to set minimum standards and guidelines, such as a minimum ratio of teacher/student in the local schools or eligibility criteria for social assistance.

Financial Resources of Local Authorities

- ! *Short-Term Implementation.* Allow local governments to carry over independent budget surpluses to the next fiscal year. The current local budget law maintains that “when at the end of the budget year is created a surplus of budget funds from inner sources, it is maintained this way for the coming budget year.” In practice, by enacting ad hoc legal decisions, the state has not allowed local governments to utilize year end surpluses. As a result, local government incentives to maximize local revenues are discouraged because any excess revenues they generate are unpredictably subject to central government appropriation. It is recommended to fully implement the spirit of articles numbers 21 and 22 of Law No. 7776, or to enshrine them in any new budget legislation so that local governments have the incentive to maximize revenue collection and plan expenditures with some degree of stability.
- ! *Short-Term Implementation.* Prohibit the freezing of independent budget funds. This has apparently happened both in 1996 and in 1997 in the month of September. The freezing of funds before the end of the budget year prohibits local governments from carrying out activities and services approved in their budgets. This practice directly contradicts the principle of local fiscal autonomy and may prevent local governments from fulfilling tasks to which they are legally obligated.
- ! *Short-Term Implementation.* Allow use of own local resources as needed. Local revenues should not be subject to central government restrictions in any way as



long as they are being utilized to fund budget expenditures approved by the local council.

- ! Remove spending caps for specific line items, and allow local governments to determine where and how to best allocate funds. Spending caps impose rigidity into the local government financial management process and do not allow spending adjustments for different budget line items despite inevitable changes in spending priorities during the budget year.
- ! Eliminate the dual fiscal year system. The dual fiscal year for independent and conditional budgets should be eliminated. Even though local governments currently follow only the state fiscal year, the legal requirement for two different years causes confusion and uncertainty in the budget process, and does not allow for practical budget planning and management.
- ! Clarify the framework which allows local governments to operate in the event there is no State budget by December 31. Currently, for transfers of central budget funds, local governments must depend on temporary decrees issued by the Council of Ministers, the President and the MoF, in turn. As a result, there is no guarantee that they would be allowed to operate with at least 1/12th of the previous year's funding in the event that no state budget is passed. Although Law No. 7776 includes the 1/12 provision for the independent budget, if the budget is not passed by the start of the budget year, it does not include further provision on the conditions and timing for the passing of a late independent budget.
- ! Establish a more transparent, stable and objective manner of calculating transfers to local governments. On the basis of a legally defined list of specific tasks for which local governments are responsible, establish a transparent stable basis in law for transfers to the local government. The process would spell out how the aggregate amounts of transfers are to be determined and how the aggregate amount is to be allocated among local governments. As part of this process, consider consolidating the transfers for salary, social insurance and operating expenses into a global central government transfer (sort of "general subsidy"), without specific distinctions by sector or specific type of expenditure.
- ! Give more responsibility to local governments for revenue-raising and setting local tax rates, within perhaps a pre-determined minimum and maximum. Since capacity and willingness to impose and collect taxes and fees will differ in each locality, these decisions should be left to the local government. The central government may want to set minimum and maximum tax rates, however, to prevent conflicts with national priorities.

- ! Grant local government authority to determine where certain local taxes and fees are collected. Efficient collection of local taxes and fees can often best be determined at the local level, where circumstances may vary from town to town. Current government decisions define where and how important local taxes and fees are collected nationwide, without consideration of the local institutional framework. This may negatively impact local revenues. Although a national standard should be determined to ensure the tax is collected everywhere, qualified local governments should be allowed to alter the tax collection structure if it is appropriate.

Appropriate Administrative Structures and Resources

- ! *Short-Term Implementation.* Clearly define property ownership rights between the national and local levels of government. In the current legal framework, local governments are given “administrative” responsibilities to utilize and maintain an ill-defined list of public properties, but they do not own any property outright. It is a major constraint because it does not allow local authorities to make basic asset management decisions which directly impact their fiscal and administrative autonomy. It is recommended to transfer property rights or the legal equivalent to local governments for public properties over which they have legal responsibility to manage. This action should be immediately coordinated with the draft legislation described in the next section (“Specific Comments on Draft Legislation”).
- ! *Short-Term Implementation.* Grant necessary powers to manage urban land. Controlling new construction and providing the necessary services to support new development is a major concern of local governments, for which they have neither the necessary authority nor resources. To be able to manage urban land, local governments require an enforcement mechanism to prevent illegal construction and access to resources to prepare land for development before it is informally settled.
- ! Delegate full management authority to local governments for the provision of services for which they are legally responsible. At present, municipalities and districts can appoint directors of public enterprises, but they have no other means of control over these services which directly impacts the quality of life in their jurisdictions, in particular, water and wastewater systems. Given the lack of public resources for maintenance and investment in the deteriorating systems, it is essential that authority to administratively restructure and manage operating and investment budgets is delegated to the locally appointed managing director.
- ! Grant clear authority to enter into management contracts so services can be competitively bid and efficiently provided. The current system places too much control at the ministerial level, where all management contracts are approved.



As local governments become more familiar and competent with tendering and monitoring management contracts, they should be allowed to do so without intervention from the central government.

Specific Comments on Draft Legislation

Draft Decision on Competencies, Functional Duties, and Financing of Local Government

The first step in the reform effort is a draft Decision on “Competencies, Functional Duties and Financing of Local Government”, which is still under discussion at the Ministry of Finance and the State Secretariat for Local Government. These comments were included in the trip report prepared before the authors left Albania, and have already been distributed to a limited audience.

The objective of this decision appears to be two-fold:

- ! More clearly define the functions and competencies of local governments, with a distinction between “institutions under local government jurisdiction” and “services provided by local government.”
- ! Establish a “block grant” for some portion of general operating expenditures of the local governments, thereby removing control of the line Ministries.

However, the current language of the decision is not at all clear, and in order for the stated intentions of officials to become reality, a number of implementing decisions will be required. The reform of local government functioning and financing is a sensitive area, and it is recommended that the Government be as clear and precise as possible in the formulation of any legislation for this sector. This will enable it to limit wide-ranging interpretations of the law in its implementation, and acrimonious debate among Ministries and between the Government and Local Government representatives.

Specific recommendations and observations concerning this draft decision include:

- ! Separate the decision into two decisions, one dealing only with issues of competencies and functioning, the second with the budget and financing issues. These two elements are currently regulated by separate laws, and the comingling in the draft decision raises more questions than are resolved.
- ! In defining local government functions and competencies, the decision should spell out more clearly what exactly is meant by “institutions under local government jurisdiction” and “services provided by local government”. The specific rights and responsibilities under each of these categories should be clearly defined in the decision. Although officials we spoke with have an idea of what is intended, these intentions are not clear in the language, and could be open to differing interpretation when the law is implemented.

For example, for “services provided by local government,” do local governments have decision-making authority for personnel or only for operating expenditures? If there is decision-making authority for personnel, can local authorities hire and dismiss personnel and determine salary levels without the interference of line Ministries? Can local governments engage in investments in these sectors, financed from their own local revenues, without having to request the permission of the Central Government? Can the local governments contract out for services for these sectors, without requiring approval of the line Ministries?

The above questions also apply to the “list of institutions under local government jurisdiction.”

- ! For those requirements of the decision which are regulated by other existing laws, the reference to the specific law/decision should be indicated. For example, Article 4a indicates that municipalities are to pay social assistance to the unemployed. The obligations and norms for payment of this social assistance are presumably regulated by another act; the specific reference to that act should generally appear here (i.e., “pay social assistance to the unemployed, according to the regulations of Law Z of xx-xx-199x”).
- ! Once the functional competencies have been more clearly set out, a second decision could address the financing issues which are raised in the current single text. How are funds to be calculated, transferred and budgeted for operating expenditures? What are the specific rights and autonomy transferred to local governments in this area? Are transfers for all personnel to be regulated in the same manner or is there a distinction in management of payroll expenditures between “institutions under jurisdiction” and “services provided by...”? What are the specific rules for budgeting and financing investments under



each of these definitions? Is there a distinction in regulation between new capital investments, and renovation/rehabilitation works?

- ! Policy makers should bear in mind while scheduling the preparation of local government reform legislation that many items need to be considered in parallel in order for the system to be able to function in a coherent manner. For example, defining competencies for specific task areas will not be sufficient, until the municipal property question is also addressed. If the local government can provide services for an irrigation system, to what extent is it able to invest in and manage this irrigation system without clarification of property and title rights? Why should the local government renovate or improve any municipal building if it is not certain of the specific rights which are attached to its tasks for using, managing or administering a building? What is specifically meant by immovable property “under the administration of local government”? Is there any definition of the extent and limits of local government rights and responsibilities for “administering” a particular property?

PROPOSALS FOR TECHNICAL ASSISTANCE

The preceding report and recommendations have outlined the structure of the current local government situation and the many limitations to effective local government organizational and financial autonomy. The Government has prepared a list of the laws and decisions programmed for 1998. Although the specific schedule is still under discussion, it appears that the Government would like to act as quickly as possible in implementing its reform program. At the same time, there should be some coordination of the content and timing of these reforms with the processes of preparing Albania’s new constitution.

The main counterpart for technical assistance should be the inter-ministerial Task Force on local government reform.

Next-Steps

Policy Workshops

As the next step to strengthen the decentralization process, it is recommended to hold a series of policy workshops designed to educate and generate discussion among the appropriate Albanian officials regarding the practical constraints and hurdles presented by the current intergovernmental finance system on local governments.

The policy workshops will dovetail with current central government efforts to implement an ambitious agenda of legislative reform in this area. The workshops will result in specific, practical proposals for immediate reforms and for longer-term reforms. The

final workshop will summarize all these proposals in a consensus reform agenda. The workshops may also result in specific requests for assistance in drafting legislation or commenting on existing drafts.

The principal audience for the workshops will be representatives from the interministerial task force responsible for revising, drafting and implementing local government reform legislation. The key representatives responsible for drafting the critical laws are the State Secretariat of Local Government (Ministry of Interior) and the Ministry of Finance. Other representatives to be invited include the finance directors from the line ministries that approve substantial funds for local government operating expenditures and investments, such as the Ministry of Public Work and Transportation, Ministry of Education, Ministry of Labor and Social Affairs, and Ministry of Interior. Local governments, to be represented by mayors or deputy mayors, along with the Albanian Association of Mayors, will also be invited participants to the policy workshops, in particular because they are not formally involved in the current reform process. Key members of the parliamentary commission on local government and constitutional commission will also be invited.

The workshops will be structured to be 1 - 1.5 days in duration, held in Tirana. The workshops will be designed to examine the key issues in reference to the European Charter for Local Self-Government. Each workshop will contain three main components. They will begin by describing the intention of the Charter for each component of local self-government. Then discussion will focus on the Albanian context and what approaches are required to respond to the basic provisions of the European Charter. Finally, participants will look at what steps Albania needs to take in order to comply with the Charter; in other words, how legislative reforms and administrative practices can be instituted or changed to fulfill the basic requirements of the Charter.

Workshop 1: Expenditures

This workshop will be organized around the issues of the basic scope, powers, and responsibilities of local self-government. Consequently, the workshop will address the appropriate level of local government spending authority and will focus on the following specific topics:

- ! Definition of responsibilities and competencies of local government
 - Direct responsibilities
 - Delegated responsibilities
 - Implications of both types of responsibilities



- ! Managing expenditures - analysis of different options
 - Direct local government control
 - Through local government organizations or departments
 - Municipal enterprises
 - Inter-communal financial cooperation
- ! Enabling authority required to carry out different types of responsibilities
 - Identification of laws/regulations that restrict local government ability to fulfill their competencies
 - Analysis of how those laws/regulations interfere with local governments ability to carry out the scope of their tasks as defined by the European Charter

Workshop 2: Revenues/Budgeting

The second workshop will focus on local government revenues and the central - local budget and transfer process. The main objective is to examine how local government financial resources can be strengthened to meet the requirements of the EC; in other words, for local governments to have access to adequate own resources, limited determination of taxes and fees at the local level, and utilization of those resources commensurate with the level of responsibilities assigned. The workshop will therefore address the following topics:

- ! Local taxes and fees
 - Free disposal of own resources
 - Ability to derive adequate resources from local taxes and fees, and the power to determine the rate
- ! Shared national taxes
 - Equalization policy to protect financially weak local governments
 - Consultation between national and local governments on tax sharing formulas
- ! Transfers
 - Equalization policy to protect financially weak local governments
 - Consultation between national and local governments on manner in which resources are transferred to local governments
 - Minimizing earmarking of transfers for specific investment projects

Workshop 3: Legislative Reform Consensus

The purpose of this final workshop will be to gain a consensus among all of the workshop participants—the key policy makers and interested parties—on the local government legislative reform agenda. The outcome of the workshop will be a priority list of reforms and basic outline of the content of those forms that all participants can agree on. In addition, discussion will focus on what follow-up efforts are needed to ensure that new or revised legislation is implemented effectively at both the central and local government levels. In summary, the workshop result in the following outcomes:

- ! Prioritized local government legislative reform agenda, with a realistic timetable and practical proposals for immediate and longer-term reforms
- ! Consensus on which local government reforms are most feasible and sensible in the current context
- ! Identification of specific areas in which technical assistance can be provided to strengthen the process, such as drafting or commenting on legislative reforms
- ! Identification of strategies to effectively implement new or revised legislation, such as information dissemination or training for local and central government officials

Coordination with Constitutional Reform

While the initial reform agenda is being discussed, a parallel process of preparing Albania's Constitution will be under way. The constitutional reform process will undoubtedly have an impact on local government autonomy. USAID should participate in the planning and implementation of the forum on Local Government, one of the planned activities of the OSCE/ACCAPP initiative.

Medium Term Issues

These tasks could be planned and carried out over the next six month period.

Social Assistance Grants Analysis

One of the sectors where local government do have some autonomy for decision is in the allocation of social assistance grants. It would be useful to prepare an analysis of two-three case studies of how local governments have implemented the requirements of this assistance and managed their caseloads, including detection and elimination of fraudulent claims. The results of such an analysis could be useful to make the case that local governments do have the capacity for other sectors to autonomously make decisions concerning levels of services to be provided and the implementation of that service.



Decentralization Study Tour

A study tour to two CEE countries which have or are implementing decentralization reforms was proposed as an activity under the original scope of work for RFS 104. Currently, three USAID-funded study tours are being planned on closely related issues. PAPA has designed a 3 week study tour to the U.S. for a group of Albanian mayors, to begin in late February, 1998. An additional one week study tour is being planned to Budapest in March, 1998 for municipal finance officers, and representatives from the Ministry of Finance, to study local budgeting practices in Hungary. USAID/Treasury program is tentatively planning a study tour during summer 1998 to address national budgeting. This tour could have a local government component to it.

Given the multitude of planned study tours, it is recommended first to coordinate with these efforts. In particular, the proposed USAID/Treasury study tour might be a good vehicle through which local government fiscal autonomy could be pursued.

It may still make sense to design a short, short study tour to Romania and/or Poland. The target audience for the study tour would be the Task Force on local government reform. Given the seniority of many of the members, however, the study tour might attract more key participants if it were shortened somewhat. It would be more effective to immediately begin the discussion of the reform agenda through the organization of a series of workshops, and then define the study tour as an outcome of the workshops.

ANNEX A

LIST OF PERSONS MET JANUARY 5 - 16, 1998

PRIME MINISTER'S OFFICE

Tomor Malaj Coordinator for Local Government

MINISTRY OF FINANCE

Gjergji Teneqexhiu	Director, Budget Department
Florian Mima	Director, Taxation Department
Tatiana Kondi	Specialist, Local Government Budgets, Budget Depart.
Sherefedin Shehu	Director, Banking Supervision Department

Tirana District Office

Aqif Minarolli	Director, Budget Department
Arjana Kazazi	Specialist, Local Government Budgets, Budget Depart.
Sotir Piqani	Director, Treasury Department
Bujan Satka	Chief of Revenue Sector, Treasury Department

SECRETARIAT OF STATE FOR LOCAL GOVERNMENT

Dr. Lush Perpali	State Secretary	T. 28273 / F. 33544
Taulant Dedja	General Director	T. 33540 / F. 27601
Malo Hizdri	Director of Finance	

MINISTRY OF PUBLIC WORKS AND TRANSPORT

Vladimir Bezhani	Director, Solid Waste Department
Artan Golemi	Chief, Budget Sector, Economics Department

MUNICIPALITY OF TIRANA

Albert Brojka	Mayor	T. 29100 / F. 28430
Arben Cico	Budget Director	
Skender Haderaj	Chief of Budget Sector	

MUNICIPALITY OF ELBASAN

Engjell Dakli	Mayor
Lila Karaj	Deputy Mayor, Infrastructure Development, Urban Planning
Ali Torhani	Deputy Mayor, Economic and Finance
Edmond Tafa	Secretary of the Municipality
Bardhyl Samarxhi	Head of Accounting Department
Ramadan Ibaj	Head of Social Support Department

OTHER INSTITUTIONS***United States Embassy***

Lynn Gurian	Second Secretary
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USAID / Warsaw

Rebecca Black
Melissa Pailthorpe

USAID / Albania

Cameron L. Pippitt	Project Development Officer	T. 30551 / F. 35600
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U.S. Department of the Treasury

Gloria G. Grimditch	U.S. Treasury Adviser	T. 35062 / F. 32222
Larry G. Seale	U.S. Treasury Adviser	

World Bank

Arben Bakllamaja	Project Officer	T. 40587 / F. 40590
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Albanian Development Fund

Ermira Brahja		T. 34885 / F. 35597
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European Bank for Reconstruction and Development

Philippe Leclercq	Resident Representative	T. 32898 / F. 30580
Ines Hobdari	Project Assistant	

OSCE - ACCAPP



Scott Carlson Coordinator and Project Manager T. 40672 / F. 40673

British Know-How Fund

Matilda Dangellia

American Bar Association / CEELI

Robert A. Pulver Legal Specialist T. 34624 / F. 33197

Project Management Unit - Immovable Property Registration System

Mark A. Marquardt T./F. 23296

Public Administration Program Albania

Bart Kennedy	Project Director	T. 32524 / F. 34188
James G. Budds	Public Management Consultant	
Joanne Adams	Local Government Advisor	

ANNEX B

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Law No. 7573 of 10-Jun-1992, On the Elections of the Local Power Organs

Law No. 7605 of 15-Sep-1992 On Subdivisions of Municipalities and Communes as well as Organization and Functioning of Tirana Municipality

Law No. 7608 of 22-Sep-1992 On Prefectures

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Law No. 7681 of 04-Mar-1993 For Administering Taxes and Fees in the Republic of Albania

Law No. 7776 of 22-Dec-1993 For Local Government Budgets

Law No. 7777 of 22-Dec-1993 For the Tax System of the Republic of Albania

Law No. 7798 of 23-Feb-1994 For an Addition to Law No. 7573 "For Local Government Elections"

Law No. 7805 of 16-Mar-1994 For Property Tax in the Republic of Albania

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DECREES

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ANNEX C

ALBANIAN LOCAL GOVERNMENT FRAMEWORK COMPARED TO THE EUROPEAN CHARTER FOR LOCAL SELF-GOVERNMENT

The table below presents a paragraph by paragraph analysis of the provisions of the European Charter for Local Self-Government, and the current situation for local governments in Albania, both according to legal texts and to the practical application of these texts and principles. This analysis is based on the authors' interpretation "of the letter and of the spirit" of the law, and may in fact, be different than that of the Council of Europe, or as interpreted by Albanian officials.

Legend

- ? Albania is in compliance with this article.
- ? Albania is not in compliance with this article.
- ? Denotes a paragraph for which the situation is not clear, or sufficient information is not available or the relevant texts are not available, in order to make a determination with respect to compliance.
- ? According to Article 12, of the twenty paragraphs to which each signatory must be bound, at least ten of these twenty should include the paragraphs marked with ?.

	European Charter	Local Government Status in Albania	Remarks
Article 2	Principle of local self government to be included in legislation or eventually, in the Constitution.	These principles exist in the interim Constitutional provisions, Chapter IV and in Law No. 7572 on the organization and functioning of local government.	? ?
Article 3.1	Definition of local self-government as the right and ability of local authorities to regulate and manage a substantial share of public affairs under their own responsibility.	Functions and competencies are not clearly defined in Law No. 7572, and many of the tasks are viewed as "delegated tasks" and not own local tasks. Many rules and limits hinder the ability of LG's to manage their affairs under their responsibility.	? ?
Article 3.2	Right of local self-government exercised by councils whose members are freely elected by secret ballot on basis of direct, equal universal suffrage.	Law No. 7573 regulates the elections of local and district councils, and according to Article 1 ensures election of members by secret ballot on basis of direct equal universal suffrage.	? ?
Article 4.1	Basic powers and responsibilities shall be prescribed by constitution or statute. However, this provision shall not prevent attribution to local authorities of powers / responsibilities for specific purposes.	Basic powers and responsibilities have been defined in Law No. 7572 - however, these powers are limited and in many instances, unclear.	? ?



	European Charter	Local Government Status in Albania	Remarks
Article 4.2	Local authorities shall have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority.	In Albania, local authorities do not appear to have much discretion to exercise their initiative unless a competence or task has been specifically assigned to them.	? ?
Article 4.3	Public responsibilities shall generally be exercised by those authorities which are closest to the citizen. Allocation of responsibility to another authority should measure extent / nature of task and requirements of efficiency and economy	Very few local tasks have actually been given to local governments, as "own local tasks". Most essential tasks are delegated, with little scope for decision-making by local councils.	?
Article 4.4	Powers given to local authorities shall normally be full and exclusive; they may not be undermined or limited by another central or regional authority	Powers of local authorities are not clearly delineated in the relevant texts. Therefore it is difficult to sort out the scope of overlapping powers, both among and between levels of local government and the Central Government.	? ?
Article 4.5	Where powers are delegated to them, local authorities shall to extent possible be allowed discretion in adapting their exercise to local conditions.	Except for the distribution of social assistance, the current functioning of delegated tasks does not allow much or any discretion to adapt these tasks to local conditions.	?
Article 4.6	Local authorities shall be consulted in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly	No current texts require official efforts nor an official consultative group to coordinate with LG's and their representatives for matters concerning them.	?
Article 5	Changes in local authority boundaries shall not be made without prior consultation of communities concerned, possibly by means of a referendum.	Interim constitutional provisions provide for prior consent of inhabitants for changes in LG boundaries only for communes, but not for municipalities and districts.	? ?
Article 6.1	Local authorities shall be able to determine their own internal administrative structures in order to adapt them to local needs and ensure effective management.	Although Law No. 7572 gives the council the right to establish the structure of personnel, all decisions on number, status and salary are made outside the LG; it is impossible to adapt personnel to local needs and to ensure effective management.	?



	European Charter	Local Government Status in Albania	Remarks
Article 6.2	Conditions of service of local government employees to permit recruitment of high-quality staff on basis of merit and competence; provision of adequate training opportunities, remuneration and career prospects.	Because LG's have no say on staff salaries, benefits and bonuses, and civil service wages are capped, LG's cannot propose such inducements to attract high-quality staff.	?
Article 7.1	Conditions of office of local elected representatives shall provide for free exercise of their functions.	Other than controls of the prefect, it would seem that local elected representatives benefit from conditions which allow for free exercise of their functions	? ?
Article 7.2	Allow for appropriate financial compensation for expenses in exercise of office, compensation for loss of earnings or remuneration for work done.	Law No. 7572 indicates sectors deemed incompatible with the function of mayor / deputy-mayor (state enterprises, financial institutions, self-employed). This implies that by definition, other types of work are permitted. This law does not make any provision with respect to financial compensation or remuneration for mayors / deputy-mayors.	?
Article 7.3	Functions deemed incompatible with holding local elective office to be determined by statute or fundamental legal principles.	Article 8 of Law No. 7572 defines the functions deemed incompatible with holding elective office.	?
Article 8.1	Administrative supervision exercised according to procedures and in cases provided for by constitution / statute.	Law No. 7608 On Prefectures and Law No. 7572 appear to give conflicting / concurrent roles to prefects and districts in suspending illegal acts of LG's. As a result, a norm for administrative supervision is not clearly set out.	?
Article 8.2	Administrative supervision shall aim only at ensuring compliance with the law / constitutional principles.	According to Law No. 7608, the prefect may only comment on the legality of acts passed by LG's. In many cases the LG legal framework is unclear, requires further regulations and is open to interpretation.	? ?

	European Charter	Local Government Status in Albania	Remarks
Article 8.3	Administrative supervision exercised so that the intervention is in proportion to the importance of the interests it is intended to protect	Both the prefecture and the district appear to have great leeway in suspending illegal acts of LG's. It is not clear how the exercise of the "tutelle" is implemented to affect local autonomy the least while achieving the desired result.	?
Article 9.1	Local authorities entitled to adequate financial resources, of which they may freely dispose within the framework of their powers.	The 90-95% of LG funds which are available as the conditional budget are tightly limited and capped, by sector, chapter and article. Albanian LG's do not have the freedom to determine expenditure priorities.	? ?
Article 9.2	Local authorities financial resources commensurate with responsibilities provided for in constitution and the law	Local authorities specific sectoral competencies are not clearly delineated in the law; most tasks which they carry out are delegated by the Central Government and are not seen as "own local tasks". These delegated tasks account for 90-95% of local budgets.	? ?
Article 9.3	Part of financial resources of local authorities should derive from local taxes and charges, of which local governments have the power to determine the rate.	Although Law No. 7777 has assigned certain local taxes and fees to LG's, they do not have the power to determine the rate, which is set nationally by Parliament.	? ?
Article 9.4	Financial system of local authority resources should be sufficiently diversified and buoyant to allow to keep pace with real evolution of cost of carrying out their tasks	The largest part of LG funds are from transfers, for which there are currently no stable, transparent formulas, and no key to determining amounts distributed. The fixed bases of taxes & fees may be re-evaluated for inflation only by MoF and this has never been done.	?
Article 9.5	To protect financially weak local authorities, institute financial equalization or equivalent to correct effects of unequal distribution of potential finance sources or financial burden. Equalization should not diminish discretion of authorities in their sphere of responsibility	There are currently no clear, stable or transparent rules for the transfer of central government resources to local governments. To achieve an eventual objective of equalization, the entire system of transfers and financing will need to be rethought.	?
Article 9.6	Local authorities to be consulted on way in which redistributed sources are allocated to them.	There is no block grant system and the redistribution of sources allocated to LG's are determined by the line ministries, without LG input.	?



	European Charter	Local Government Status in Albania	Remarks
Article 9.7	To extent possible, grants to local authorities not to be earmarked to finance specific projects. Provision of grants shall not remove freedom of local authorities to exercise policy discretion in their jurisdiction.	All central financing of local governments in Albania is sector and project specific, including for investments. There do not appear to be any regulations on how / why the investment resources are allocated among specific local governments.	?
Article 9.8	In order to borrow for capital investment, local authorities should have access to the national capital market.	Although in theory, local governments may borrow (Article 6, Law No. 7776), implementing regulations have not yet been issued.	?
Article 10.1	Entitled in exercise of powers to co-operate with, form consortia with other local authorities to carry out tasks of common interest.	Chapter IV, Article 8 of the interim constitutional provisions assign to districts "the duty to coordinate the activity of communes and municipalities within their territory". There do not appear to be any regulation to allow LG's to cooperate on joint tasks, at their initiative, at the sub-district level.	? ?
Article 10.2	Right to belong to an association to protect & promote common interests; and to belong to an international association of local authorities.	The establishment of the Albanian Association of Mayors (AAM), among others, as a representative and lobbying group is a practical implementation of this article.	?
Article 10.3	Entitled to cooperate with counterparts in other countries.	Article 14.21 of Law No. 7572 gives the right to conclude international counterpart cooperation agreements to communal and municipal councils, but not to district councils.	?
Article 11	Legal protection: Right of recourse to judicial system to secure the exercise of their powers and respect for principles of local self-government enshrined in law.	The interim constitutional provisions indicate that local government bodies are legal entities (Chapter IV, Article 10), but do not explicitly recognize the right to recourse in the judicial system. This right is also not explicitly stated in Law No. 7572.	? ? There have been cases of local governments going to court to protect their rights.

Based on the foregoing analysis, Albania is currently in compliance with a minimum of 7, and possibly 10, paragraphs of the European Charter (20 paragraphs are required for adherence). Of these, at least 4, and possibly 6, are part of the core paragraphs required for compliance and marked with a ? above. Albania will have to make changes to be

bound by 4-6 other core paragraphs, many of which relate to financial matters. It should be stressed that many of the recommendations in the section entitled “Proposals for Technical Assistance” are compatible with bringing Albania into line with the Charter’s requirements. The extent and rapidity of reform will depend on the political and economic context.

ANNEX D

COMPARISON OF THE STRUCTURE AND FINANCING OF LOCAL GOVERNMENTS

ALBANIA AND OTHER CEE COUNTRIES (HUNGARY, POLAND, ROMANIA)



ANNEX D

	ALBANIA	HUNGARY	POLAND	ROMANIA
<i>Defined tasks of local government</i>	Law on Function of Local Governments - very general list of tasks (i.e., prepares the budget, imposes taxes, prepared urban development plan, supervises local public services,...		Local Self-Government Act includes a task-specific detailed list of local tasks, such as land use, roads, bridges, water mains and supply, local public transport, housing, solid waste....	Local public administration law includes a general list of tasks, which also includes urban development functions, road maintenance, managing "local public services" .
<i>Operating transfers from Central Government</i>		Normative subsidy, a formula based on population and on the costs of some main tasks which have been transferred to local governments as own local tasks. The funds do not have to be used for specific purposes. The formula and indices to calculate the subsidy are open and notified to all LG's.	General subsidy based on a known formula; funds allocated based on population and on an index of average own revenues per capita for main LG taxes and tax-sharing. Part of the subsidy is an equalization grant, to compensate LG's with own revenues less than 85% of the average. Funds do not have to be used for specific purposes.	The "subsidy" was transferred as a share of the wage tax, and allocated based on a formula taking account of local situation for population, road network, hospital beds, etc. The funds do not have to be used for specific purposes.
<i>Shared National Taxes - Personal Income Tax</i>		Each local government receives a 25% share of the personal income tax collected from residents in its jurisdiction.	Each local government receives a 15% share of the personal income tax collected from residents in its jurisdiction.	The proposed local public finance law would distribute to local governments 35% (50% in Bucharest) of the wage tax collected from residents in its jurisdiction.



Annex D (Continued)

	ALBANIA	HUNGARY	POLAND	ROMANIA
<i>Shared National Taxes - Corporate Income Tax</i>			Each local government receives a 5% share of the corporate income tax collected from businesses and subsidiaries in the locality.	
<i>Local Taxes: ability to define local taxes</i>	Most local taxes and fees are defined by law; but local governments may set temporary fees for needed services; local governments have taken advantage of this provision.	Local governments have a choice of five basic types of local taxes which they may implement on local council decision - business taxes, property taxes, poll taxes, tourist taxes.	Local taxes are set by law; the most important are the real estate tax, transportation tax, agricultural tax, business license tax and stamp duties.	Major local taxes and fees set by law; since 1998, local government have the right to determine and levy certain taxes and fees, and to create new taxes as needed for specific local services.
<i>Local Taxes: ability to set local tax rates</i>	Local governments cannot set or change local tax rates, except for those which it establishes as temporary fees.	On the local taxes chosen by the local authority, the tax rate may be determined up to a maximum rate.	Local governments may set rates up to a maximum approved by law.	For the taxes set by law, the rate is set within a range; for other taxes, the rates are locally determined.
<i>Expenditure authority: own local tasks</i>		Local governments may determine their spending priorities for own local tasks, without the preliminary control or judgement by the central government on priorities determined.	Local governments may determine their spending priorities for own local tasks, without the preliminary control or judgement by the central government on priorities determined.	Although local governments set their spending priorities, these were reviewed by MoF. The proposed local finance law will remove MoF review. There are no controls or spending caps by sector and type of expenditure.



Annex D (Continued)

	ALBANIA	HUNGARY	POLAND	ROMANIA
<i>Investment expenditure authority</i>	Investments financed by conditional budget must be approved by the line Ministry. The amount of investments (cap) financed with independent revenues must also be approved.	Local governments may define their own investment priorities. They may proceed with investments once necessary approvals are obtained, if needed (urban permits,...). There are no spending caps or central review to justify investments.	Local governments may define their own investment priorities. They may proceed with investments once urban and environmental approvals are obtained, as needed. A large part of investment is financed through own net savings.	All LG investments must receive MoF technical approval to be included in local budget. Very large investments must go the Inter-Ministerial Commission. Once technical approval is obtained, LG's must get funding. There is almost no net savings to finance investments.
<i>Investment transfers from Central Government</i>	Investment funds are through the conditional budget, and there are no set rules for distribution.	National program of targeted grants finances up to a fixed percent of projects in defined sectors. Also, specific investment funds by sector (roads, water, environment). All programs are by competition with fixed rules; LG's have to apply individually, for each of their projects.	Largest program of grants are the National and Voivodship Environmental Funds. LG's must apply with specific projects. Individual Ministries and Voivods also have some investment grants. Most investments are financed with own net savings.	General investment subsidies are distributed to the counties. In turn the counties distribute the funds to cities and towns, based on local needs and criteria. In fact, a very decentralized process, but funds are inadequate.
<i>End-of year surplus</i>	According to the law, local governments should keep their surplus, but in fact, this has been mostly captured by the State Treasury.	End of year surplus is carried over in local government budget.	End of year surplus is carried over in local government budget.	Surplus was captured by a county treasury fund; public finance reform includes a measure to allow surplus to be carried over in local government budget.



Annex D (Continued)

	ALBANIA	HUNGARY	POLAND	ROMANIA
<i>Borrowing regulations and limits</i>	Right of local authorities to borrow included in Local Budget Law, but no implementing regulations.	Annual debt limit is set so that debt service (interest + principal), including loans guaranteed by the local government does not exceed 70% of own current revenues (taxes, income from rents...).	Annual debt limit is set so that debt service, including loans guaranteed by the LG does not exceed 15% of budget revenues.	Proposed local finance law would limit borrowing so that debt service does not exceed 20% of total current revenues. All loans will be included in a register of local public debt.
<i>Audit requirements</i>	All expenditures are checked and approved by the MoF local budget offices and the local treasury office. Local accounts are kept in a treasury account, and a control is performed at the end of the year.		Each local government must undergo a full audit by the Regional Audit Chamber at least once every four years; periodic audits on specific topics are more frequent.	There is no specific requirement for auditing and control of local government accounts. In the proposed local finance law, a check by the Court of Accounts would be triggered by non-payment of short-term loans, or excessive outstanding debt.

ANNEX E

LOCAL GOVERNMENT BUDGET TABLES

Table E1: Municipalities – Conditional Budget

Table E2: Municipalities – Independent Budget Revenues

Table E3: Communes – Conditional Budget

Table E4: Communes – Independent Budget Revenues

Table E5: Districts – Conditional Budget

Table E6: Districts – Independent Budget Revenues

Table E1 :

Municipalities - Conditional Budget (Financed by Transfers)

MUNICIPALITIES

thousand leks	Total	Total	Total	Evolution		% of Total	% of Total	% of Total
	1995	1996	1997	1996/95	1997/96	1995	1996	1997
CONDITIONAL OPERATING BUDGET								
<u>Local Government</u>	630,991	828,443	805,843	12.2%	-31.5%	9.2%	10.6%	9.1%
Salaries / Wages (01)	373,003	488,434	521,862					
Social Insurance (02)	64,686	117,396	110,888					
Operating Expenditures (03)	193,302	222,613	173,093					
<u>Ministry of Public Works & Transport</u>	1,164,424	1,032,661	1,459,221	-24.2%	-0.5%	17.0%	13.2%	16.5%
Salaries / Wages (01)	554,127	540,489	467,762					
Social Insurance (02)	140,362	149,099	130,214					
Operating Expenditures (03)	276,724	276,753	732,520					
Subsidy (06)	193,211	66,320	128,725					
<u>Ministry of Education</u>	2,367,157	3,082,710	3,526,179	11.3%	-19.4%	34.6%	39.4%	39.8%
Salaries / Wages (01)	1,570,282	2,073,269	2,507,148					
Social Insurance (02)	422,111	600,724	713,207					
Operating Expenditures (03)	374,764	408,717	305,824					
<u>Ministry of Sports and Culture</u>	402,657	486,246	410,802	3.2%	-40.5%	5.9%	6.2%	4.6%
Salaries / Wages (01)	181,397	250,417	228,038					
Social Insurance (02)	43,181	52,402	62,728					
Operating Expenditures (03)	178,079	183,427	120,036					
<u>Ministry of Health</u>	223,342	262,157	327,409	0.3%	-12.0%	3.3%	3.4%	3.7%
Salaries / Wages (01)	134,476	159,979	213,150					
Social Insurance (02)	34,064	49,540	62,274					
Operating Expenditures (03)	54,802	52,638	51,985					
<u>Ministry of Labor and Social Affairs</u>	2,052,579	2,129,729	2,334,183	-11.3%	-22.8%	30.0%	27.2%	26.3%
Subsidy - Social Protection	2,052,579	2,129,729	2,334,183					
Total Conditional Operating Budget	6,841,150	7,821,946	8,863,637	-2.3%	-20.2%	100.0%	100.0%	100.0%
Salaries / Wages (01)	2,813,285	3,512,588	3,937,960	6.7%	-21.0%	41.1%	44.9%	44.4%
Social Insurance (02)	704,404	969,161	1,079,311	17.6%	-21.6%	10.3%	12.4%	12.2%
Operating Expenditures (03)	1,077,671	1,144,148	1,383,458	-9.3%	-14.8%	15.8%	14.6%	15.6%
Subsidy (06)	193,211	66,320	128,725	-70.7%	36.7%	2.8%	0.8%	1.5%
Subsidy - Social Protection	2,052,579	2,129,729	2,334,183	-11.3%	-22.8%	30.0%	27.2%	26.3%
CONDITIONAL INVESTMENT BUDGET								
Total Capital Budget (05)	1,016,247	1,086,354	208,717	-8.6%	-86.5%	100.0%	100.0%	100.0%
Local Government	72,824	119,521	41,930	40.3%	-75.3%	7.2%	11.0%	20.1%
Ministry of Public Works & Transport	785,397	769,467	93,493	-16.3%	-91.4%	77.3%	70.8%	44.8%
Ministry of Education	34,216	64,501	17,903	61.1%	-80.5%	3.4%	5.9%	8.6%
Ministry of Sports and Culture	123,810	129,094	51,038	-10.9%	-72.2%	12.2%	11.9%	24.5%
Ministry of Health		3,771	4,353			0.0%	0.3%	2.1%
inflation				1.17	1.42			

Table E2 :

Municipalities - Independent Budget Revenues

thousand lek	MUNICIPALITIES							
	Total	Total	Total	% of Total	% of Total	% of Total	Evolution	Evolution
	1995	1996	1997	1995	1996	1997	1996/95	1997/96
Shared National Taxes								
Property tax								
Total	0	0	0	0.0%	0.0%	0.0%		
Local Taxes & Fees collected by Central Government Offices								
Solid waste fee	30,952	38,490	64,564	19.4%	9.0%	28.8%	6.3%	18.1%
Business registration fee	55,254	60,824	21,290	34.6%	14.3%	9.5%	-5.9%	-75.4%
Stamp tax	355			0.2%				
Total	86,561	99,314	85,854	54.2%	23.3%	38.2%	-1.9%	-39.1%
Local Taxes & Fees collected by City Hall								
Business license fee	2,783	3,630	1,637	1.7%	0.9%	0.7%		
Hunting license fee	4,299	3,646	917	2.7%	0.9%	0.4%		
Hotel Tax (foreign guests)	4,547	22,101	27,425	2.8%	5.2%	12.2%	315.4%	-12.6%
Market tax	36,570	94,528	30,825	22.9%	22.2%	13.7%	120.9%	-77.0%
Advertising fee	280	1,453	338	0.2%	0.3%	0.2%		
New construction fee	1,309	2,990	1,248	0.8%	0.7%	0.6%		
Fee on public signs	2,415	2,891	3,035	1.5%	0.7%	1.4%		
Turnover tax (1%)	4,493	16,052	13,503	2.8%	3.8%	6.0%	205.4%	-40.8%
Transport permit		905	6,102		0.2%	2.7%		
Veterinary service fee		4,529	2,509		1.1%	1.1%		
Fines		111	195			0.1%		
Residence permit fee								
Construction permit fee								
Other Taxes and Fees	14,264	81,871	34,683	8.9%	19.2%	15.5%	390.6%	-70.2%
Total	70,960	234,707	122,417	44.5%	55.2%	54.5%	182.7%	-63.3%
Other recurring revenues								
Sponsorship		16,449	2,457		3.9%	1.1%		
Transfers surplus n-1								
Rents	2,058	55,865	13,381	1.3%	13.1%	6.0%		
Total	2,058	72,314	15,838	1.3%	17.0%	7.1%		
Non-recurring revenues								
Proceeds of privatization	5	19,242	359		4.5%	0.2%		
Proceeds from restitutions								
Other non-recurring capital rev.								
Total	5	19,242	359		4.5%	0.2%		
TOTAL INDEPENDENT REVS	159,584	425,577	224,468	100.0%	100.0%	100.0%	127.9%	-62.9%
inflation							1.17	1.42

Table E3 :

Communes - Conditional Budget (Financed by Transfers)

COMMUNES

thousand leks	Total	Total	Total	Evolution		% of Total	% of Total	% of Total
	1995	1996	1997	1996/95	1997/96	1995	1996	1997
CONDITIONAL OPERATING BUDGET								
<u>Local Government</u>	644,683	770,380	681,377	2.1%	-37.7%	10.2%	10.0%	10.1%
Salaries / Wages (01)	422,958	523,666	481,357					
Social Insurance (02)	85,115	123,264	115,566					
Operating Expenditures (03)	136,610	123,450	84,454					
<u>Ministry of Public Works & Transport</u>	0	0	0			0.0%	0.0%	0.0%
Salaries / Wages (01)								
Social Insurance (02)								
Operating Expenditures (03)								
Subsidy (06)								
<u>Ministry of Education</u>	3,270,262	4,314,804	3,847,065	12.8%	-37.2%	51.7%	56.1%	56.9%
Salaries / Wages (01)	2,346,293	3,066,461	2,811,911					
Social Insurance (02)	659,287	928,772	859,002					
Operating Expenditures (03)	264,682	319,571	176,152					
<u>Ministry of Sports and Culture</u>	20,448	24,306	23,776	1.6%	-31.1%	0.3%	0.3%	0.4%
Salaries / Wages (01)	12,914	15,499	16,074					
Social Insurance (02)	3,183	4,422	4,784					
Operating Expenditures (03)	4,351	4,385	2,918					
<u>Ministry of Health</u>	751,518	817,640	685,960	-7.0%	-40.9%	11.9%	10.6%	10.1%
Salaries / Wages (01)	456,438	520,411	461,308					
Social Insurance (02)	126,986	159,129	143,006					
Operating Expenditures (03)	168,094	138,100	81,646					
<u>Ministry of Labor and Social Affairs</u>	1,637,487	1,764,790	1,523,209	-7.9%	-39.2%	25.9%	22.9%	22.5%
Subsidy - Social Protection	1,637,487	1,764,790	1,523,209					
Total Conditional Operating Budget	6,324,398	7,691,920	6,761,387	4.0%	-38.1%	100.0%	100.0%	100.0%
Salaries / Wages (01)	3,238,603	4,126,037	3,770,650	8.9%	-35.6%	51.2%	53.6%	55.8%
Social Insurance (02)	874,571	1,215,587	1,122,358	18.8%	-35.0%	13.8%	15.8%	16.6%
Operating Expenditures (03)	573,737	585,506	345,170	-12.8%	-58.5%	9.1%	7.6%	5.1%
Subsidy (06)	0	0	0			0.0%	0.0%	0.0%
Subsidy - Social Protection	1,637,487	1,764,790	1,523,209	-7.9%	-39.2%	25.9%	22.9%	22.5%
CONDITIONAL INVESTMENT BUDGET								
Total Capital Budget (05)	70,693	52,841	35,927	-36.1%	-52.1%	100.0%	100.0%	100.0%
Local Government	65,086	46,491	33,848	-38.9%	-48.7%	92.1%	88.0%	94.2%
Ministry of Public Works & Transport						0.0%	0.0%	0.0%
Ministry of Education	1,624	1,886	789	-0.7%	-70.5%	2.3%	3.6%	2.2%
Ministry of Sports and Culture	3,982	3,874	1,176	-16.8%	-78.6%	5.6%	7.3%	3.3%
Ministry of Health	1	590	114			0.0%	1.1%	0.3%
inflation				1.17	1.42			

Table E4 :

Communes - Independent Budget Revenues

COMMUNES

thousand lek	Total	Total	Total	COMMUNES			Evolution	
	1995	1996	1997	% of Total	% of Total	% of Total	1996/95	1997/96
				1995	1996	1997		
Shared National Taxes								
Property tax	117			1.1%				
Total	117	0	0	1.1%	0.0%	0.0%		
Local Taxes & Fees collected by Central Government Offices								
Solid waste fee	2,002	3,332	2,434	18.3%	10.0%	13.8%	42.3%	-48.6%
Business registration fee	5,269	6,067	2,840	48.1%	18.2%	16.2%	-1.6%	-67.0%
Stamp tax	44		16	0.4%		0.1%		
Total	7,315	9,399	5,290	66.8%	28.3%	30.1%	9.8%	-60.4%
Local Taxes & Fees collected by City Hall								
Business license fee	10	10	11	0.1%		0.1%		
Hunting license fee	295	264	203	2.7%	0.8%	1.2%		
Hotel Tax (foreign guests)		49	49		0.1%	0.3%		-29.6%
Market tax	2,228	1,648	754	20.4%	5.0%	4.3%	-36.8%	-67.8%
Advertising fee	59	1	28	0.5%		0.2%		
New construction fee	183	209	90	1.7%	0.6%	0.5%		
Fee on public signs	33	284		0.3%	0.9%	0.0%		
Turnover tax (1%)	196	677	388	1.8%	2.0%	2.2%	195.2%	-59.6%
Transport permit			8					
Veterinary service fee		55	2		0.2%			
Fines								
Residence permit fee								
Construction permit fee								
Other Taxes and Fees	432	14,454	7,665	3.9%	43.5%	43.6%	2759.7%	-62.7%
Total	3,436	17,651	9,198	31.4%	53.1%	52.3%	339.1%	-63.3%
Other recurring revenues								
Sponsorship		4,496	214		13.5%	1.2%		
Transfers surplus n-1								
Rents	75	1,716	2,880	0.7%	5.2%	16.4%	1855.6%	18.2%
Total	75	6,212	3,094	0.7%	18.7%	17.6%	6979.2%	-64.9%
Non-recurring revenues								
Proceeds of privatization								
Proceeds from restitutions								
Other non-recurring capital rev.								
Total	0	0	0					
TOTAL INDEPENDENT REVS	10,943	33,262	17,582	100.0%	100.0%	100.0%	159.8%	-62.8%

inflation

1.17

1.42

Table E5 :

Districts - Conditional Budget (Financed by Transfers)

DISTRICTS

thousand leks	Total	Total	Total	Evolution		% of Total	% of Total	% of Total
	1995	1996	1997	1996/95	1997/96	1995	1996	1997
CONDITIONAL OPERATING BUDGET								
<u>Local Government</u>	262,047	365,009	263,875	19.1%	-49.1%	16.7%	19.4%	18.5%
Salaries / Wages (01)	168,932	244,728	184,406					
Social Insurance (02)	29,164	52,092	38,964					
Operating Expenditures (03)	63,951	68,189	40,505					
<u>Ministry of Public Works & Transport</u>	275,757	193,273	111,258	-40.1%	-59.5%	17.6%	10.3%	7.8%
Salaries / Wages (01)	68,824	40,965	33,165					
Social Insurance (02)	18,786	11,498	10,025					
Operating Expenditures (03)	43,054	25,595	19,869					
Subsidy (06)	145,093	115,215	48,199					
<u>Ministry of Education</u>	425,286	582,474	371,622	17.1%	-55.1%	27.1%	31.0%	26.0%
Salaries / Wages (01)	104,720	207,188	131,117					
Social Insurance (02)	27,860	61,769	38,210					
Operating Expenditures (03)	292,706	313,517	202,295					
<u>Ministry of Sports and Culture</u>	233	19,587	18,982		-31.8%	0.0%	1.0%	1.3%
Salaries / Wages (01)	233	11,107	10,667					
Social Insurance (02)		2,156	2,497					
Operating Expenditures (03)		6,324	5,818					
<u>Ministry of Health</u>	593,629	714,213	660,518	2.8%	-34.9%	37.9%	38.0%	46.2%
Salaries / Wages (01)	338,634	402,063	397,955					
Social Insurance (02)	88,858	117,795	119,022					
Operating Expenditures (03)	166,137	194,355	143,541					
<u>Ministry of Labor and Social Affairs</u>	10,323	5,358	3,820	-55.6%	-49.8%	0.7%	0.3%	0.3%
Subsidy - Social Protection	10,323	5,358	3,820					
Total Conditional Operating Budget	1,567,275	1,879,914	1,430,075	2.5%	-46.4%	100.0%	100.0%	100.0%
Salaries / Wages (01)	681,343	906,051	757,310	13.7%	-41.1%	43.5%	48.2%	53.0%
Social Insurance (02)	164,668	245,310	208,718	27.3%	-40.1%	10.5%	13.0%	14.6%
Operating Expenditures (03)	565,848	607,980	412,028	-8.2%	-52.3%	36.1%	32.3%	28.8%
Subsidy (06)	145,093	115,215	48,199	-32.1%	-70.5%	9.3%	6.1%	3.4%
Subsidy - Social Protection	10,323	5,358	3,820	-55.6%	-49.8%	0.7%	0.3%	0.3%
CONDITIONAL INVESTMENT BUDGET								
Total Capital Budget (05)	1,980,485	1,503,828	499,613	-35.1%	-76.6%	100.0%	100.0%	100.0%
Local Government	15,227	21,165	21,065	18.8%	-29.9%	0.8%	1.4%	4.2%
Ministry of Public Works & Transport	1,119,780	879,932	118,299	-32.8%	-90.5%	56.5%	58.5%	23.7%
Ministry of Education	845,464	593,646	355,226	-40.0%	-57.9%	42.7%	39.5%	71.1%
Ministry of Sports and Culture		5,315	3,082		-59.2%	0.0%	0.4%	0.6%
Ministry of Health	14	3,770	1,941			0.0%	0.3%	0.4%
inflation				1.17	1.42			

Table E6 :

Districts - Independent Budget Revenues

				DISTRICTS				
	Total 1995	Total 1996	Total 1997	% of Total 1995	% of Total 1996	% of Total 1997	Evolution 1996/95	Evolution 1997/96
<i>thousand lek</i>								
Shared National Taxes								
Property tax	998			2.0%				
Total	998	0	0	2.0%	0.0%	0.0%	-100.0%	
Local Taxes & Fees collected by Central Government Offices								
Solid waste fee	5,368	4,969	88	10.6%	2.2%	0.1%	-20.9%	-98.8%
Business registration fee	14,969	9,716	3,251	29.6%	4.3%	4.7%	-44.5%	-76.4%
Stamp tax	6		38			0.1%		
Total	20,343	14,685	3,377	40.2%	6.5%	4.9%	-38.3%	-83.8%
Local Taxes & Fees collected by District Council								
Business license fee	2,763	2,064	1,064	5.5%	0.9%	1.5%	-36.2%	-63.7%
Hunting license fee	832		21	1.6%				
Hotel Tax (foreign guests)	816	41		1.6%			-95.7%	
Market tax	15		80			0.1%		
Advertising fee	3							
New construction fee	2,344	4,598	2,100	4.6%	2.0%	3.0%		
Fee on public signs								
Turnover tax (1%)								
Transport permit		845	360		0.4%	0.5%		
Veterinary service fee								
Fines								
Residence permit fee								
Construction permit fee								
Other Taxes and Fees	676	160,177	8,617	1.3%	70.8%	12.4%	201.51985	-0.96211497
Total	7,449	167,725	12,242	14.7%	74.1%	17.6%	1824.5%	-94.9%
Other recurring revenues								
Sponsorship		743	83		0.3%	0.1%		
Transfers surplus n-1								
Rents	2,627	39,105	53,914	5.2%	17.3%	77.4%	1172.3%	-2.9%
Total	2,627	39,848	53,997	5.2%	17.6%	77.6%	1196.5%	-4.6%
Non-recurring revenues								
Proceeds of privatization	19,127	3,955		37.8%	1.7%			
Proceeds from restitutions								
Other non-recurring capital rev.								
Total	19,127	3,955	0	37.8%	1.7%		-82.3%	
TOTAL INDEPENDENT REVS	50,544	226,213	69,616	100.0%	100.0%	100.0%	282.5%	-78.3%

inflation

1.17

1.42